

CCASS General Rules

PART A: RULES OF GENERAL APPLICATION

CHAPTER 1

INTERPRETATION

101. Definitions

When used herein, the following expressions shall, unless the context otherwise requires, bear the following meanings:

- “Back-Up Centre” means a place where terminal back-up facilities are provided by HKSCC to a Participants ~~(other than an Investor Participant)~~, as referred to in Rule 1301;
- “Buy-in” means a transaction as specified in paragraphs (iii) and (iv) of Rule 3501 or paragraph (ii) of Rule 3501A in relation to the CNS System or in paragraphs (iii) and (iv) of Rule 3402 in relation to the Isolated Trades System;
- “CCASS Terminal” means, in relation to a Participant ~~(other than an Investor Participant)~~ or a Designated Bank, a terminal which provides direct electronic linkage to the CCASS host computer of HKSCC, as referred to in Section 3.1.1 of the Operational Procedures, installed at the office premises of the Participant, its Settlement Agent or the Designated Bank;
- “CCMS Collateral Account” means an account established in CCMS for each Participant ~~(other than an Investor Participant)~~ for debiting and crediting collateral, as referred to in Rule 601A. For the purposes of the Rules and the Operational Procedures, unless otherwise specified, the term “CCMS Collateral Account” does not include an account established in CCMS for a Participant by another Recognized Clearing House under its rules;
- “CCMS House Collateral Account” means House Collateral Account 0001 established in CCMS for each Participant ~~(other than an Investor Participant)~~, as referred to in Rule 601A;

“CHATS Payment Instruction”  
or “CPI”

means ~~an~~ payment instruction generated by CCASS/HKSCC and transmitted electronically (i) to a Designated Bank requesting that Designated Bank to effect a CCASS-related CHATS payment be made for a paying Participant or (ii) to a bank designated by HKSCC requesting that bank to effect a CCASS-related CHATS payment for HKSCC in accordance with the Rules;

“China Connect Clearing House”

means a clearing house in Mainland China acceptable to HKSCC and included in the list of China Connect Clearing Houses from time to time, as referred to in Rule 4105(b);

“China Connect Clearing Participant”

means a Clearing Participant which is registered as a China Connect Clearing Participant by HKSCC;

“China Connect Clearing Participant Registration Criteria”

means the eligibility criteria in Rule 4103 and any additional eligibility criteria which HKSCC may prescribe from time to time for a Participant to be, and to remain, registered as a China Connect Clearing Participant as referred to in Rule 4103;

“China Connect Clearing Services”

means the clearing, settlement, depository, nominee and other services that may be provided by HKSCC to Participants other than Investor Participants for the purposes of or in connection with establishing and operating a Clearing Link as referred to in Rule 4102;

“China Connect Exchange Participant”

has the same meaning as defined in the Exchange Rules;

“China Connect Market”

has the same meaning as defined in the Exchange Rules;

“China Connect Securities”

has the same meaning as defined in the Exchange Rules. Unless the context otherwise requires, any reference in the Rules to “China Connect Securities” includes “Special China Connect Securities”;

“China Connect Securities Trade”

means a trade in China Connect Securities (including Special China Connect Securities) executed on a China Connect Market through the SEHK Subsidiary under a Trading Link;

“Clearing Agency Participant”	means a Participant admitted to participate in CCASS as a Clearing Agency Participant. <u>Where applicable, references in the Rules to “Clearing Agency Participant” shall be construed to include the Clearing Agency Participant in its capacity as a China Connect Clearing House;</u>
“Clearing Agency Transaction”	means a transaction, other than an SI Transaction, between (i) a Participant other than an Investor Participant or in the case of a GCP, including its NCP, and (ii) a Clearing Agency Participant for settlement in CCASS as referred to in Rule 902. <u>For the avoidance of doubt, a Clearing Agency Transaction does not include an Exchange Trade, one of the parties to which has been substituted by a Clearing Agency Participant under Rule 901;</u>
“Clearing Agreement”	means a written agreement between an NCP and a GCP made pursuant to Rule 4001 <u>or between a Special Participant and a China Connect Clearing House made pursuant to Rule 4205;</u>
<u>“Clearing House of HKAB” or “Clearing House”</u>	<u>means the clearing house of The Hong Kong Association of Banks managed by Hong Kong Interbank Clearing Limited for the clearance of payment transactions between its members (which include the Designated Banks);</u>
<u>“Clearing Link”</u>	<u>means any cross-boundary arrangement that may be entered into by HKSCC with a China Connect Clearing House as referred to in Rule 4101 or Rule 4201;</u>
<u>“Clearing Links Agreement”</u>	<u>means an agreement that may be entered into by HKSCC with a China Connect Clearing House relating to a Clearing Link;</u>
“Clearing Participant”	means a Participant admitted to participate in CCASS as a Direct Clearing Participant or a General Clearing Participant. <u>Where applicable, references in the Rules to “Clearing Participant” shall be construed to include the Clearing Participant in its capacity as a China Connect Clearing Participant;</u>

“Collateral”

means collateral, in such form as HKSCC may from time to time require, to be provided by a Participant pursuant to Rule 602, 806, 3501, 3501A or 3602 and additionally, to be provided by a TSF CCASS Participant pursuant to Rule 12A14 or a China Connect Clearing Participant pursuant to Rule 4107(iii);

“Continuous Net Settlement System” or “CNS System”

means the method of settlement in relation to certain Exchange Trades, China Connect Securities Trades and Clearing Agency Transactions as referred to in Rules 3301 to 3308;

“Direct Credit Instruction” or “DCI”

means a payment instruction generated by HKSCC and forwarded for processing to the Designated Bank of a Participant via the Clearing House of HKAB, to effect payment of sums owing by HKSCC to a Participant in respect of certain CCASS operations or services, including any risk management measures adopted by HKSCC;

“Direct Debit Instruction” or “DDI”

means a payment instruction generated by HKSCC and forwarded for processing to the Designated Bank of a Participant via the Clearing House of HKAB, to effect payment of sums owing by a Participant to HKSCC in respect of certain CCASS operations or services, including any risk management measures adopted by HKSCC;

“Electronic Payment Instruction” or “EPI”

means a payment instruction generated by HKSCC and forwarded for processing to the Designated Bank of a Participant via the Clearing House of HKAB, to effect (i) money settlement between two Participants in relation to Isolated Trades or SI or ISI Transactions in CCASS on a DVP basis; (ii) payment of application monies to Issuers and refund monies to Participants; or (iii) payment of money by Clearing Participants or Custodian Participants to their SSA Statement Recipients in respect of STI Transfers on a DVP basis;

“Eligible Security”

means an issue of securities including but not limited to China Connect Securities, Foreign Securities, Debt Securities, Depositary Receipts, Structured Products, Exchange Fund Notes, Government Bonds, Specified Instruments, CMU Instruments, warrants, options and Units and other rights under collective investment schemes, which is from time to time and for the time being accepted as eligible by HKSCC for deposit, clearance and settlement in CCASS, in accordance with Rule 501, and (a) where the context so requires shall include any particular security or securities of such an issue and (b) unless the context will not admit, shall include, upon their issue, all New Issue Shares so accepted as eligible;

“Exchange Trade”

means a trade in an Eligible Security (other than a China Connect Security) either between two Exchange Participants effected on or reported to the Exchange by an Exchange Participant or effected on the Exchange;

“Forced-Sale Notice”

means a notice which may from time to time be issued by HKSCC, the Exchange or the SEHK Subsidiary to a Participant or an NCP of the Participant, requiring the Participant or the NCP to reduce its or its clients’ relevant holdings in a China Connect Security in compliance with any foreign shareholding limit imposed under the applicable laws of Mainland China;

“Foreign Securities”

means the securities which are either listed both on the Exchange and on an overseas exchange (including NASDAQ or AMEX) or listed on an overseas exchange and admitted to trading on the Exchange, which may be held in an account in the name of HKSCC with an Appointed Depositary and in respect of which HKSCC provides settlement and clearing services. For the avoidance of doubt, Foreign Securities do not include China Connect Securities;

“Investor Settlement Instruction”  
or “ISI”

means an instruction relating to an Investor Participant, in such form as HKSCC may from time to time prescribe as being valid, relating to transactions in Eligible Securities (other than Exchange Trades, China Connect Securities Trades, Clearing Agency Transactions, Settlement Instructions, Transfer Instructions and Cross-border Transfer Instructions~~Electronic Application Instructions for New Issue Shares~~) to be settled in CCASS, as referred to in Rule 905;

“Mainland Business Day”

means a day on which the China Connect Clearing Services relating to the clearing and settlement of China Connect Securities Trades are available and CCASS is open for business to China Connect Clearing Participants (except a Saturday, Sunday or a public holiday in either Hong Kong or Mainland China);

“Mainland China”

means the People’s Republic of China, other than Hong Kong, the Macau Special Administrative Region and Taiwan;

“Mainland Clearing Risk Fund”

means an amount determined by HKSCC as Mainland Clearing Risk Fund required to be provided by a China Connect Clearing Participant pursuant to Rule 4107(vii);

“Mainland Security Deposit”

means an amount determined by HKSCC as Mainland Security Deposit required to be provided by a China Connect Clearing Participant pursuant to Rule 4107(i);

“Mainland Settlement Deposit”

means an amount determined by HKSCC as Mainland Settlement Deposit required to be provided by a China Connect Clearing Participant pursuant to Rule 4107(i);

“Marks”

means an amount required to be provided by a Clearing Participant (including a Clearing Participant which is a China Connect Clearing Participant) or a Clearing Agency Participant to HKSCC pursuant to Rule 3601 or Rule 4107(ii);

“Market Contract”

means, ~~either, (i)~~ a contract between HKSCC and a Clearing Participant or a Clearing Agency Participant arising as a result of the Novation of an Exchange Trade to be settled under the CNS System, or (ii) a contract between HKSCC and a China Connect Clearing Participant arising as a result of the Novation of a China Connect Securities Trade to be settled under the CNS System, or (iii) ~~or,~~ a contract between HKSCC and a Participant arising as a result of the Novation of a Clearing Agency Transaction to be settled under the CNS System, as referred to in Rule 3301;

“Multi-counter Transfer Instructions”

means an instructions given by a Participant to HKSCC in such form as HKSCC may prescribe from time to time, to effect the transfer of Multi-counter Eligible Securities of an Issuer held in the Participant’s Stock Accounts (except its Stock Collateral Control Accounts, SSA with Statement Service (in the case of a Clearing Participant or a Custodian Participant) and TSF Accounts (in the case of a TSF CCASS Participant)) from one relevant stock code to another relevant stock code, as referred to in Rule 816A;

“Novation”

means the legal process of novation, pursuant to which Market Contracts are made in accordance with Rule 3301 or, in the case of China Connect Securities Trades, Rule 4106;

“Securities-on-hold”

means the Eligible Securities allocated to the Stock Clearing Account of a Clearing Participant (including a Clearing Participant which is a China Connect Clearing Participant) or a Clearing Agency Participant which is a party to a Market Contract by HKSCC under the CNS System, as referred to in Rule 3604 or Rule 4107(viii);

“SEHK Securities”

has the same meaning as defined in the Exchange Rules;

“SEHK Subsidiary”

has the same meaning as defined in the Exchange Rules;

“Settlement Agent”	means a person appointed by a Participant <del>(other than an Investor Participant)</del> , pursuant to Rule 3801 to access CCASS and conduct settlement and other activities in CCASS on behalf of the Participant;
“Settlement Day”	means <u>(i) in relation to Eligible Securities other than China Connect Securities, a Business Day on which the settlement services of CCASS in respect of such Eligible Securities are open for use by Participants, and (ii) in relation to China Connect Securities, a day on which the China Connect Clearing Services of CCASS in respect of the clearing and settlement of such China Connect Securities are open for use by China Connect Clearing Participants;</u>
“Settlement Instruction” or “SI”	means an instruction of a Participant, in such form as HKSCC may from time to time prescribe as being valid, relating to transactions in Eligible Securities (other than Exchange Trades, <u>China Connect Securities Trades, Clearing Agency Transactions, Electronic Application Instructions for New Issue Shares, Investor Settlement Instructions, Transfer Instructions and Cross-border Transfer Instructions</u> ) to be settled in CCASS, as referred to in Rule 904;
“SI Transaction”	means a transaction to be settled in CCASS between two Participants other than Investor Participants as a result of the input of a Settlement Instruction, authorized, if required, by each <u>of the Participants</u> (such Settlement Instructions being matched in CCASS);
<u>“Special China Connect Securities”</u>	<u>has the same meaning as defined in the Exchange Rules;</u>
<u>“Special Participant”</u>	<u>has the same meaning as defined in the Exchange Rules;</u>
<u>“Special SEHK Securities”</u>	<u>has the same meaning as defined in the Exchange Rules. Unless the context otherwise requires, any reference in the Rules to “SEHK Securities” includes “Special SEHK Securities”;</u>

“Stock Account”

means, (i) in relation to each Clearing Participant or Clearing Agency Participant, each Stock Clearing Account, Stock Segregated Account, Stock Lending Account and Stock Collateral Control Account; (ii) in relation to each Investor Participant, each Stock Clearing Account; and (iii) in relation to each Participant other than a Clearing Participant, a Clearing Agency Participant ~~and~~ an Investor Participant, each Stock Clearing Account, Stock Segregated Account and Stock Lending Account, allocated to and operated by it in which Eligible Securities of such Participant are credited or debited, as referred to in Rule 601, and in relation to a TSF CCASS Participant, means, additionally, each TSF Account allocated to it by HKSCC under Rule 12A08;

“Stock Collateral Control Account”

means, in relation to each Clearing Participant or Clearing Agency Participant, the Stock Account in CCASS of such Participant which records (i) the Collateral Securities that have been transferred from Stock Accounts of that Participant to its CCMS Collateral Account(s), as referred to in Rule 601 and (ii) the Eligible Securities that have been transferred from Stock Accounts of that Participant to a collateral account established in CCMS for that Participant by another Recognized Clearing House under its rules;

“Stock Segregated Accounts” or “SSA”

means, (i) in relation to each Clearing Participant or Clearing Agency Participant, the Stock Accounts in CCASS of such Participant other than its Stock Clearing Account, Stock Lending Account and Stock Collateral Control Account; and (ii) in relation to each Participant other than a Clearing Participant, a Clearing Agency Participant ~~and/or~~ an Investor Participant, the Stock Accounts in CCASS of such Participant other than its Stock Clearing Account and Stock Lending Account, as referred to in Rule 601, including but not limited to SSA with Statement Service of the Participant, and in relation to a TSF CCASS Participant, TSF Accounts shall not be regarded as Stock Segregated Accounts;

“T-day”	means, in relation to a transaction in Eligible Securities <u>other than China Connect Securities</u> , the day of the transaction as reported by the Exchange, <u>and in relation to a transaction in China Connect Securities, the day of the transaction as reported by the SEHK Subsidiary, its designated person or the relevant China Connect Clearing House;</u>
“Trading day”	means, <u>in relation to securities and other products which are traded on the Exchange,</u> a day on which trading is conducted on the Exchange <u>and in relation to China Connect Securities, a day on which trading is conducted on the relevant China Connect Market via the relevant Trading Link and the China Connect Clearing Services of CCASS in respect of the clearing and settlement of China Connect Securities are open for use by China Connect Clearing Participants;</u>
<u>“Trading Links”</u>	<u>has the same meaning as defined in the Exchange Rules;</u>
“Uncertificated Eligible Security”	means an Eligible Security (other than <u>a Foreign Securityies or a China Connect Security</u> ) issued by an Overseas Issuer in uncertificated form and designated by HKSCC as an “Uncertificated Eligible Security” for the purposes of the Rules;

## CHAPTER 5

## ELIGIBLE SECURITIES AND ELIGIBLE CURRENCIES

## 501. HKSCC's discretion to determine eligibility

HKSCC shall have absolute discretion to determine whether or not (i) an issue of securities (including all shares, stocks, Debt Securities, [China Connect Securities](#), Foreign Securities, Depositary Receipts, Structured Products, warrants, options, Units and other rights under collective investment schemes and all other instruments or arrangements commonly known as securities, whether or not evidenced in writing) shall be eligible for deposit, clearance and settlement in CCASS and be accepted as an Eligible Security and (ii) to accept a currency as being one in which an Eligible Security may be denominated. Without prejudice to the aforesaid, where an issue of securities is accepted by HKSCC as an Eligible Security, HKSCC shall have absolute discretion to determine the manner in which such issue of securities is to be deposited, cleared and settled in CCASS.

HKSCC may, pursuant to its power under this Rule, accept securities issued by an [i](#)ssuer under the same class as eligible for deposit, clearance and settlement in CCASS in more than one Eligible Currency under separate stock code numbers to be allocated by it. Where HKSCC exercises such power, the securities allocated under a stock code number in respect of each Eligible Currency will be treated as a separate Multi-counter Eligible Security. HKSCC may in its absolute discretion prescribe such conditions, restrictions, requirements or procedures as it considers appropriate in respect of the treatment or the transfer of Multi-counter Eligible Securities.

## CHAPTER 7

## SERVICES – GENERAL

**702. Other clearing entities**

HKSCC may from time to time enter into Clearing Links with clearing houses in Mainland China as referred to in Rules 4101 and 4201 or arrangements, upon such terms and conditions as it decides, with other clearing entities with a view to making available some or all of its services to participants of other clearing entities or obtaining the services of the other clearing entities for Participants, or providing services to Participants in respect of securities which are cleared by the other clearing entities as central counterparties~~both~~.

**703. Arrangements with other entities**

HKSCC may from time to time, in its own right, ~~and/or~~ as agent for Participants and/or in any other capacity, enter into or be required to enter into arrangements with other entities, or to obtain or receive the services or assistance of such entities in order to provide or otherwise to facilitate the provision of, any CCASS or other services and facilities to Participants upon such terms and conditions as it may agree with such entities. When using any such CCASS or other services and facilities, Participants shall comply with and be bound by, and all transactions relating to such CCASS or other services and facilities shall also be subject to, the terms and conditions of the relevant arrangements and all the other applicable rules, regulations, procedures, requirements and directions made, issued or prescribed under the arrangements, as notified to the Participants or otherwise set out in these Rules or the Operational Procedures. Where applicable, Participants shall upon request provide HKSCC, any entity it has entered into relevant arrangement with or such other persons as HKSCC may specify with such agreements, confirmations, acknowledgements, declarations or authorizations (i) as HKSCC may require for the provision of the relevant services; or (ii) as HKSCC may be required to obtain or provide under any terms and conditions relating to the relevant arrangement.

## CHAPTER 8

## DEPOSITORY AND CUSTODIAN SERVICES

**803. Eligible Securities deposited to be freely transferable**

In relation to Uncertificated Eligible Securities which are credited to a Participant's Stock Account, including but not limited to Uncertificated Eligible Securities credited to a Participant's Stock Account directly by or from the relevant Overseas Issuer, a principal or branch share registrar or such other authorized agents or representatives of the relevant Overseas Issuer or any other intermediaries having relevant authority to do so under applicable laws or arrangements (as the case may be), that Participant covenants, represents and warrants to HKSCC that:

- (i) the Participant does not know of any fact that might impair the validity of such Uncertificated Eligible Securities and has full authority to receive, deal with and give instructions, authorizations or declarations in respect of them;
- (ii) there is no adverse claim to such Uncertificated Eligible Securities and there is no restriction on the transfer of such Uncertificated Eligible Securities; and
- (iii) it shall furnish HKSCC with any information as HKSCC may require in order to:
  - (a) provide the services in respect of the Uncertificated Eligible Securities;
  - (b) comply with any request made of it by any tax authority for information in connection with the preceding representations and warranties in this Rule 803 or any other matter required by applicable law;
  - (c) comply with any request made of it by any competent regulator or authority for information in connection with the Uncertificated Eligible Securities or any other matter required by applicable law; and
  - (d) comply with any request of the relevant Overseas Issuer, a principal or branch share registrar or such other authorized agents or representatives of the relevant Overseas Issuer or any other relevant intermediaries (as the case may be) as required by applicable law or the applicable arrangement in relation to the provision of services in respect of Uncertificated Eligible Securities.

In relation to China Connect Securities which are credited to a Participant's Stock Account, that Participant covenants, represents and warrants to HKSCC that :-

- (i) the Participant does not know of any fact that might impair the validity of such China Connect Securities and has full authority to receive, deal with and give instructions, authorizations or declarations in respect of them;
- (ii) there is no adverse claim to such China Connect Securities and there is no restriction on the transfer of such China Connect Securities other than any transfer restriction which is expressly provided for under the Exchange Rules or these Rules; and

(iii) it shall furnish HKSCC with any information as HKSCC may require in order to:

(a) provide China Connect Clearing Services;

(b) comply with any request made of it by any tax authority for information in connection with the preceding representations and warranties in this Rule 803 or any other matter required by applicable law; and

(c) comply with any request made of it by any competent regulator or authority for information in connection with the China Connect Securities or any other matter required by applicable law.

#### **810. Withdrawal of Eligible Securities**

Subject to the Rules (including but not limited to Chapter 42), each Participant shall be entitled to withdraw from CCASS or an Appointed Depository via HKSCC Eligible Securities which are issued in registered form (except global registered form) in the Participant's Stock Accounts other than TSF Accounts (if the Participant is a TSF CCASS Participant, in respect of which the provisions of Chapter 12A shall apply). Unless otherwise determined by HKSCC or provided in the Rules, Participants are not entitled to withdraw from CCASS or an Appointed Depository via HKSCC Eligible Securities which are uncertificated or issued in global form.

#### **824. Custodian services in relation to China Connect Securities**

China Connect Securities are uncertificated and are held by HKSCC for the account of Participants in an account maintained by HKSCC with the relevant China Connect Clearing House under a Clearing Link and are recorded in computerized form in CCASS. HKSCC shall not be obliged to open or maintain any sub-account with the relevant China Connect Clearing House for a Participant or any other person in respect of China Connect Securities.

Physical deposit of China Connect Securities with and physical withdrawal of China Connect Securities from CCASS or the relevant China Connect Clearing House are not available. Accordingly, Rules relating to the physical deposit and withdrawal of securities are not applicable to China Connect Securities.

China Connect Securities may be credited to and debited from a Participant's Stock Account as a result of (a) clearing and settlement of China Connect Securities Trades, and (b) the provision of any other China Connect Clearing Services by HKSCC to the Participant.

Save as otherwise provided in the Rules, HKSCC acknowledges and confirms that it has no proprietary interest in China Connect Securities to the extent they are credited to the Stock Account of a Participant.

HKSCC does not guarantee the title to any China Connect Securities held through it in any manner. Further, HKSCC shall have no obligation to enforce any rights on behalf of Participants in respect of China Connect Securities.

Participants confirm and agree that their title or interest in and entitlements to China Connect Securities (whether legal, equitable or otherwise) shall be subject to the applicable laws of Mainland China and Hong Kong, including laws relating to any disclosure of interest requirement or foreign shareholding restriction. Participants shall be responsible for ensuring that they comply with such applicable laws.

In the event that HKSCC, the Exchange or the SEHK Subsidiary is notified by the relevant China Connect Market, China Connect Clearing House or regulatory body that HKSCC's holding in a China Connect Security for Participants has caused any foreign shareholding limit to be exceeded in breach of any applicable law, HKSCC shall have the power to require Participants, as determined by HKSCC on a last-in-first-out basis, to reduce such amount of holdings in their respective Stock Accounts within such time period as may be required by HKSCC such that the applicable foreign shareholding limit will no longer be exceeded. Participants shall, upon receipt of any Forced-Sale Notice, reduce their or their clients' holdings in the relevant China Connect Security as referred to in Rule 4110(iv). Participants shall have arrangements and authorizations in place to enable them to effect the sale of the relevant China Connect Security on behalf of their clients should they fail to do so within the specified time period.

Where China Connect Securities of a Participant are held through HKSCC in any manner, the Participant covenants, represents and warrants to HKSCC that:-

- (a) it shall not raise any claims (whether in contract, tort or otherwise) against HKSCC arising from or relating to any form of tax, duty, fine or penalty imposed or levied on or in respect of the China Connect Securities under any applicable law or regulation, whether or not HKSCC is involved in any tax collection, withholding or related arrangement; and
- (b) unless HKSCC otherwise agrees, it shall only give voting or other instructions to HKSCC and not directly to any issuer or the issuer's authorized agent or representative.

CHAPTER 9

CLEARING SERVICES

901. Clearance of Exchange Trades

(i) Provision of Exchange Trades Details

HKSCC may require Clearing Participants and Clearing Agency Participants to provide details of Exchange Trades to it, such details to be in such form as may be specified by HKSCC from time to time.

(ia) Substitution Process

Where ~~at least one of the parties~~ a party to an Exchange Trade is an NCP, the GCP of that NCP designated for clearing Exchange Trades of such NCP shall become a party to the Exchange Trade as principal in substitution for, and with exactly the same rights and obligations under the Exchange Trade as, that NCP.

Where a party to an Exchange Trade is a Special Participant, the relevant Clearing Agency Participant which clears Exchange Trades for the Special Participant shall become a party to the Exchange Trade as principal in substitution for, and with exactly the same rights and obligations under the Exchange Trade as, that Special Participant.

(ii) CNS System/Isolated Trades System for Exchange Trades

For the avoidance of doubt, if HKSCC exercises its right pursuant to Rule 901 to rely on the accuracy of the details of the Exchange Trades reported to it by the Exchange and elects not to accept any Trade Amendment affecting an Exchange Trade which has been accepted for settlement under the CNS System, the acceptance of such Exchange Trade for settlement under the CNS System will be binding on the Clearing Participants and Clearing Agency Participants concerned; and if HKSCC accepts that certain trades shall not be recognized, such trades shall be excluded from clearing and settlement in CCASS and shall be deemed not to have been accepted by HKSCC.

901A. Clearance of China Connect Securities Trades

(i) Provision of China Connect Securities Trades Details

In relation to China Connect Securities Trades on each Mainland Business Day, details thereof may be reported to HKSCC by the SEHK Subsidiary, its designated person or the relevant China Connect Clearing House.

HKSCC shall be entitled to rely on the accuracy of the details of the China Connect Securities Trades so reported and act on them in accordance with the Rules.

For the avoidance of doubt, HKSCC and the Exchange shall not be responsible for any delays or inaccuracies in relation to the reporting of details of China

Connect Securities Trades by the SEHK Subsidiary, its designated person or the relevant China Connect Clearing House to HKSCC.

HKSCC may require China Connect Clearing Participants to provide details of China Connect Securities Trades to it, such details to be in such form as may be specified by HKSCC from time to time.

(ii) Substitution Process for China Connect Securities Trades

Where a China Connect Exchange Participant for whom a China Connect Securities Trade is executed is an NCP, the GCP of that NCP designated for clearing China Connect Securities Trades of such NCP shall become a party to the China Connect Securities Trade as principal in substitution for, and with exactly the same rights and obligations under the China Connect Securities Trade as, that NCP.

(iii) CNS System for China Connect Securities Trades

Subject to the Rules, China Connect Securities Trades are to be cleared and settled in CCASS under the CNS System and any China Connect Securities Trade which has been accepted by HKSCC for settlement under the CNS System will be binding on the China Connect Clearing Participants concerned.

(iv) Settlement period for China Connect Securities Trades

Subject to the Rules, for China Connect Securities Trades effected on each Trading day, securities settlement shall take place on the same day, while money settlement shall take place on the immediately following Settlement Day.

**904. Clearance of other transactions: SIs**

Except in relation to Exchange Trades, ~~and China Connect Securities Trades~~, Clearing Agency Transactions, Investor Settlement Instructions, Transfer Instructions and Cross-border Transfer Instructions~~SI Transactions~~, the clearance of any other transactions to be settled in CCASS will require the input by each Participant other than an Investor Participant to such ~~a~~ transaction of a Settlement Instruction, containing such details as are specified in and otherwise in accordance with the Operational Procedures. Where the details input by the Participant contain information of or relating to any person other than a Participant, the Participant undertakes and confirms to HKSCC that it has obtained the written consent of the relevant person to input the information for the purpose of the Rules and to facilitate the provision of CCASS services by HKSCC to Participants in accordance with the Rules. Notwithstanding the input of any such details in a Settlement Instruction by a Participant, HKSCC shall be under no obligation to recognize any right or interest which any person may have or claim to have in relation to the relevant transaction or any matters concerning CCASS, and the Participant shall at all times be liable as principal to HKSCC.

For the avoidance of doubt, HKSCC will not be responsible in any way for the failure of a Participant to settle ~~such a~~ an SI Transaction in CCASS in accordance with the terms as agreed between the two counterparty Participants.

## CHAPTER 10

## SETTLEMENT SERVICES

**1002. Transactions accepted for settlement**

Transactions accepted for settlement and/or clearance by HKSCC may include:

(iia) China Connect Securities Trades under the CNS System;

**1003. Settlement by DIs or Batch-settlement-runs or on-line delivery**

In respect of SI Transactions, a Participant may opt to apply an on hold mechanism to the Eligible Securities credited to its Stock Account upon the settlement of an SI Transaction for the specific purpose of settling another SI Transaction to which the Participant is the delivering party. Such Eligible Securities shall not be used for any purpose other than the settlement of the Participant's obligation to deliver under the relevant SI in accordance with the Operational Procedures. A Participant other than an Investor Participant may also opt to apply an on hold mechanism for holding settlement of an SI Transaction or an ISI Transaction. An SI Transaction subject to this on hold mechanism will be excluded from settlement by DI and the next Batch-settlement-run after successful matching. Settlement of such SI Transaction will not be effected until the matched on hold status has been released by the initiating party or parties, as the case may be, in accordance with the Operational Procedures. Similarly, an ISI Transaction subject to this on hold mechanism will be excluded from settlement by DI, Batch-settlement-runs and online settlement initiated by the input of an ISI (without affirmation) or affirmation of an ISI (with affirmation). Settlement of such ISI Transaction will not be effected until the on hold mechanism has been released by the initiating Participant.

In case a China Connect Clearing Participant has an overdue short CNS position in a China Connect Security, HKSCC shall apply an on hold mechanism for holding settlement of the Participant's delivering SI Transactions in relation to such China Connect Security. Settlement of such SI Transactions will not be effected until the on hold status has been released in accordance with the Operational Procedures.

## CHAPTER 11

## NOMINEE SERVICES

**1101. Scope and extent of nominee and similar services**

Subject to the Rules and applicable laws, in respect of Eligible Securities deposited into or otherwise held ~~in custody~~ or recorded in ~~the~~ CCASS ~~Depository or in an Appointed Depository (as the case may be)~~ and credited to the Stock Accounts of Participants and in respect of New Issue Shares, HKSCC may from time to time provide nominee and similar services to Participants in such manner and to such extent and at such times as it considers appropriate. The services may include:

- (ii) the distribution or payment to Participants of dividends, interest payments, redemption proceeds, distributions, rights, entitlements, securities and other properties and documents received by HKSCC or its nominee with respect to such Eligible Securities and if practicable, the making of disposal arrangements in respect of distributions which would otherwise be difficult or impracticable for Participants to realize for the benefit of the relevant Participants;
- (iii) (a) the appointment of Participants or persons nominated by Participants as proxies or representatives of HKSCC or the Nominee for the purposes of attending and voting at meetings of holders of such Eligible Securities or other similar purposes, and (b) in respect of Uncertificated Eligible Securities (where applicable or where the applicable laws, rules or regulations so permit or require), the communication or passing on of any voting or other instructions, proxy nominations or appointments or all other authorizations, declarations, requests or information received from Participants to the Overseas Issuer or its authorized agents or representatives including the Issuer's principal or branch share registrar; and (c) in respect of China Connect Securities, where the applicable laws, rules or regulations so permit or require, the communication or passing on of any voting or other instructions received from Participants to the relevant issuer or its authorized agents or representatives;

**1106. HKSCC may allocate rights among Participants**

Participants acknowledge that not all Eligible Securities held in CCASS or by an Appointed Depository of an issue in registered form may be registered in the name of HKSCC or its nominee or in the name of the Appointed Depository or its nominee (as the case may be) in time to allow for the exercise of rights or entitlements (including, without limitation, voting rights) or the participation in actions, transactions or other matters in respect of all such Eligible Securities at the relevant time. Participants further acknowledge that in certain circumstances, including, without limitation, as a result of applicable laws, it may be difficult, impracticable or not permissible for HKSCC or its nominee to exercise rights or entitlements or to participate in actions, transactions or other matters in respect of all Eligible Securities (including, without limitation, China Connect Securities).

Participants agree that in such a case and in all other cases where HKSCC or its nominee may not be able to exercise or participate in such rights, entitlements, or actions or transactions in respect of all such Eligible Securities deposited into or otherwise held or recorded in CCASS ~~or by an Appointed Depository~~, HKSCC shall

be entitled to allocate the exercise of or participation in such rights, ~~entitlements, or~~ actions or transactions among Participants either pro-rata to the number of the relevant Eligible Securities in their Stock Accounts at the relevant time, or in such other manner as it shall consider fair, ~~and~~ appropriate and practicable in the circumstances, or to refrain from taking any action or to make such arrangement as it shall consider fair, appropriate and practicable in the circumstances regarding such rights, entitlements, actions or transactions.

**1108. HKSCC not liable**

Without prejudice to any liability HKSCC may have in respect of anything not done or not omitted to be done in good faith on its part, if HKSCC or its nominee shall be unable to exercise rights or entitlements (including, without limitation, voting rights) or to participate in actions, transactions or other matters affecting all or any Eligible Securities deposited into or otherwise held or recorded in CCASS ~~or by an Appointed Depository~~ due to:

- (iv) any limitation, restriction, moratorium, suspension or deprivation of voting rights or rights to receive dividends or any other rights or entitlements under any applicable law or regulation or the constitutional documents of the Issuer of the Eligible Security or a competent regulator or authority; or
- (v) any limitations or restrictions that require HKSCC or its nominee to exercise such rights or actions in person at any place outside of Hong Kong without the option to exercise such right or actions by facsimile or electronic means,

HKSCC, the Exchange, and a recognized exchange controller which is the controller of HKSCC shall be under no obligation and shall be relieved from any further obligation whatsoever to provide for the exercise of or participation in such rights or actions to Participants and shall not be liable to Participants in any manner whatsoever.

## CHAPTER 12

## MONEY SETTLEMENT SERVICES

**1201. Participants to have Designated Bank Accounts**

Each Participant shall maintain a General Purpose Designated Bank Account in its own name and denominated in Hong Kong dollars for the settlement of money obligations in CCASS. Each Participant which wishes to settle money obligations in CCASS in an Eligible Currency other than Hong Kong dollars must maintain a Designated Bank Account in its own name and denominated in that Eligible Currency for the settlement of money obligations in CCASS.

Each China Connect Clearing Participant shall maintain a Designated Bank Account in its own name and denominated in RMB for the settlement of money obligations in respect of China Connect Securities Trades to be settled via CPIs and DDIs.

**1203. Extent of HKSCC's authority**

HKSCC shall be authorized to cause credits and debits to be made to the Designated Bank Accounts in relation to the following:-

- (vii) the provision of nominee services by HKSCC with respect to Eligible Securities deposited into or otherwise held or recorded in CCASS, including, but not limited to, the distribution by HKSCC of all interest or dividends received by HKSCC or its nominee in respect of such Eligible Securities and the collection of funds from Participants in relation to the provision of nominee services;

**1207. Set-off**

HKSCC shall be entitled to apply any sums denominated in any currency standing to the credit of any account (including but not limited to any account in Money Ledger or CCMS) with HKSCC of a Participant in satisfaction of any sum denominated in any currency due or payable by such Participant to HKSCC, whether actual or contingent, and whether solely or jointly with any other person.

Subject to any applicable Clearing Links Agreement, where a Participant operates or is liable to HKSCC in one or more capacities (including but not limited to being a China Connect Clearing House) and under one or more arrangements (including but not limited to a Clearing Link) under these Rules, and HKSCC terminates the relevant arrangement(s) due to the declaration by HKSCC of an Event of Default in respect of such Participant, then upon such termination, all obligations between the Participant and HKSCC in any capacity or under any arrangement under the Rules to return any settlement guarantee fund, settlement reserve fund or other assets or amounts transferrable or transferred for risk management purposes in respect of the clearing and settlement of any Exchange Trades or China Connect Securities Trades (or the cash equivalent of such assets as determined by HKSCC) shall accelerate and become immediately due and payable, and HKSCC shall be entitled to apply any due and payable amounts owed between itself and such Participant in connection with the settlement or risk management of any Exchange Trades or China Connect Securities Trades and any sums denominated in any currency standing to the credit of any

account (including but not limited to any account in Money Ledger or CCMS) with HKSCC of such Participant (in any capacity or under any arrangement) by way of set-off, such that only a net sum shall be payable by or to such Participant, provided that any paid shares held by such Participant on behalf of other persons shall not be included in such application.

## CHAPTER 15

### LISTS TO BE MAINTAINED

#### 1501. List of Eligible Securities and List of TSF Stocks

HKSCC shall maintain ~~for public inspection~~ a list of Eligible Securities and shall from time to time add to such list or remove therefrom issues of Eligible Securities in accordance with the Rules.

HKSCC, as TSF operator, shall maintain ~~for public inspection~~ a list of TSF Stocks; and shall from time to time add to or remove from such list TSF Stocks in accordance with Rule 12A04.

HKSCC shall publish the list of Eligible Securities and the list of TSF Stocks on the HKEx website or by such other means as it considers appropriate.

#### 1502. Other lists

HKSCC shall maintain ~~for public inspection~~ and keep up to date at regular intervals a list of Participants in each category (other than Investor Participants), Designated Banks, China Connect Clearing Houses and Appointed Depositories in existence at the time. HKSCC shall publish such lists on the HKEx website or by such other means as it considers appropriate.

#### 1503. Rules available for inspection

HKSCC shall ~~maintain and keep~~ make available for inspection by the public an up-to-date a copy of the Rules ~~during its normal business hours on each Business Day~~. HKSCC shall publish a copy of the Rules on the HKEx website or by such other means as it considers appropriate.

CHAPTER 20

DISCIPLINARY ACTIONS

**2001. Circumstances subject to disciplinary actions**

Subject to Rule 2013, HKSCC may institute disciplinary proceedings against a Participant in respect of an act of misconduct committed or reasonably believed to have been committed by it. An act of misconduct includes:-

- (xii) if the Participant is a Common Participant, a default in payment of any sum payable to any other Recognized Clearing House or an event of default committed by the Participant under the rules of such Recognized Clearing House; ~~and~~
- (xiii) if the Participant is a TSF CCASS Participant, a failure to comply with any TSF Participant Registration Criteria or any other conditions or requirements for its continued registration as a TSF CCASS Participant, or a failure to comply with any provisions of, or any of its obligations under, Chapter 12A of the Rules, Section 12A of the Operational Procedures and other related provisions in the Operational Procedures; ~~and~~
- (xiv) if the Participant is a China Connect Clearing Participant, a failure to comply with any China Connect Clearing Participant Registration Criteria or any other conditions or requirements for its continued registration as a China Connect Clearing Participant, or a failure to comply with any provisions of, or any of its obligations under, Chapter 41 of the Rules, Section 10A of the Operational Procedures and other related provisions in the Rules.

## CHAPTER 21

## DUTIES AND LIABILITIES OF HKSCC

## 2103. Force majeure

HKSCC, the Exchange, and a recognized exchange controller which is the controller of HKSCC shall not be liable for any action taken or for any failure, hindrance or delay in the provision of services or for any failure to give effect to or delay in giving effect to any instructions from Participants with respect to any nominee, depository or other CCASS services (or in the case of Foreign Securities held by an Appointed Depository, with respect to any nominee, depository or other service provided by that Appointed Depository, or in the case of China Connect Securities, with respect to any China Connect Clearing Services) or for the suspension or cessation of the TSF or the failure to provide any FX Services or FX rates for the operation of the TSF or for the suspension or cessation of any Clearing Link or the performance in whole or in part of its obligations under the terms of the Rules or under any Market Contract if such action, failure, hindrance or delay arises out of causes beyond its control.

Such causes may include, but shall not be limited to, acts of God or the public enemy, acts of a civil or military authority, embargoes, fires, floods, explosions, accidents, labour disputes, mechanical breakdowns, computer or system failures or other failures of equipment, failures of or defects in computer or system software, unavailability of or restrictions on any communication media for whatever reason (whether or not such media is used by Participants), interruptions (whether in whole or in part) of power supplies or other utility or service, any law, decree, regulation or order of any government, competent authority or any court or tribunal, and any other causes beyond HKSCC's control including, without limitation to the foregoing, any similar causes affecting the Exchange, Hong Kong Interbank Clearing Limited (whether or not specified in the Exchange Rules or the rules and regulations of Hong Kong Interbank Clearing Limited), ~~or~~ the manager or trustee of any Unit Trust, ~~or~~ an Appointed Depository or a China Connect Clearing House.

CHAPTER 25

GUARANTEE FUND

**2501. Establishment of Guarantee Fund**

HKSCC has established, in accordance with the Rules, a fund called the Guarantee Fund. The Guarantee Fund shall only be used in accordance with the Rules.

HKSCC may apply any amounts standing to the credit of the Guarantee Fund as a short-term source of liquid funds or otherwise to meet any immediate obligations and liabilities arising out of Market Contracts and/or pursuant to Rules 813, 814, 815 and 816, other than the following:

- (a) obligations and liabilities between HKSCC and a Clearing Agency Participant arising out of a Market Contract between HKSCC and the Clearing Agency Participant which is participating in CCASS pursuant to a Clearing Link as referred to in Chapter 42; and
- (b) liabilities between HKSCC and a Clearing Agency Participant which is participating in CCASS pursuant to a Clearing Link as referred to in Chapter 42 for a loss of or defects affecting Eligible Securities pursuant to Rules 813, 814, 815 and/or 816.

**2506. Application of Guarantee Fund**

Subject to Rule 2501 but ~~W~~without prejudice to other provisions of the Rules, the Guarantee Fund may be applied in respect of:-

- (i) the obligations and liabilities of HKSCC arising out of Market Contracts (including, but not limited to the costs and expenses incurred in relation to making recoveries from Clearing Participants and in relation to risk management measures effected by HKSCC with respect to Market Contracts); and
- (ii) the liabilities of HKSCC for a loss of or defects affecting Eligible Securities pursuant to Rule 813, Rule 814, Rule 815 and Rule 816 and in respect of which a Clearing Participant shall be liable to HKSCC.

**PART B: EXCHANGE TRADES AND TRANSACTIONS  
BETWEEN PARTICIPANTS**

**CHAPTER 33**

**CONTINUOUS NET SETTLEMENT SYSTEM**

**3301. Novation of Exchange Trades, ~~and~~ Clearing Agency Transactions, China Connect Securities Trades and replacement by Market Contracts**

Upon acceptance of an Exchange Trade by HKSCC for settlement under the CNS System in accordance with the Rules, such Exchange Trade shall be replaced by two Market Contracts through Novation, one between the selling Clearing Participant or Clearing Agency Participant and HKSCC as buyer, as principals to such contract, and another between the buying Clearing Participant or Clearing Agency Participant and HKSCC as seller, as principals to such contract.

Upon acceptance of a Clearing Agency Transaction by HKSCC for settlement under the CNS System in accordance with the Rules, such Clearing Agency Transaction shall be replaced by two Market Contracts through Novation, one between the Participant other than Investor Participant and HKSCC, as principals to such contract, and another between the Clearing Agency Participant and HKSCC, as principals to such contract.

In respect of a China Connect Securities Trade with a China Connect Clearing Participant on one side or each of the two sides of the trade, there shall be created through Novation, simultaneous with the multilateral net settlement process of the China Connect Clearing House, a Market Contract between HKSCC and the China Connect Clearing Participant as described in Rule 4106. The China Connect Clearing Participant and HKSCC will act as principals to such contract. To a buying China Connect Clearing Participant, HKSCC will be the seller and to a selling China Connect Clearing Participant, HKSCC will be the buyer.

**3302. Terms of Novation**

HKSCC's obligations whether as seller or buyer under Market Contracts, as the case may be, under the terms of the Novation, shall be performed in the manner and form and by such time as may be prescribed in the Rules (including, without limitation, Rules 3307, 4106 and 4107(xi)).

The benefit of the performance by HKSCC of such obligations is conferred upon Clearing Participants or Clearing Agency Participants or China Connect Clearing Participants, as the case may be, as principals and not upon any other person whatsoever.

Subject as otherwise provided in the Rules, Market Contracts shall be on the same terms as the relevant Exchange Trade, ~~or~~ Clearing Agency Transaction or China Connect Securities Trade replaced by such Market Contracts.

**3307. HKSCC's obligations under Market Contracts**

To the extent that the aggregate of the funds or assets available to HKSCC are insufficient at any time to meet the aggregate of HKSCC's liabilities to Clearing

Participants or Clearing Agency Participants, ~~as the case may be,~~ under all Market Contracts subsisting at any time, based on the amount of the funds or assets available to HKSCC for the purpose at the time (taking into account HKSCC's other liabilities then subsisting), as certified in writing by HKSCC, each ~~such~~ Participant to whom HKSCC is liable under such Market Contracts shall, subject to Rule 4107(xi), only be entitled to receive payment pro-rata to the amount due to it as compared with the aggregate amount due to all Clearing Participants or Clearing Agency Participants, ~~as the case may be,~~ under such Market Contracts; HKSCC shall remain liable for such Market Contracts but payment of the balance of such amounts due shall only be made as and when and to the extent that funds or assets are subsequently available. In relation to the funds or assets available to HKSCC ~~both~~ to meet both its liabilities to Clearing Participants or Clearing Agency Participants, ~~as the case may be,~~ under Market Contracts and ~~to meet~~ its liabilities to Participants pursuant to Rules 813, ~~Rule~~ 814, ~~Rule~~ 815 and ~~Rule~~ 816 (as referred to in Rule 816), HKSCC may, subject to Rule 4107(xi), apportion the funds or assets so available to it between its liabilities to Clearing Participants or Clearing Agency Participants, ~~as the case may be,~~ under such Market Contracts and such its liabilities to Participants pursuant to Rules 813, ~~Rule~~ 814, ~~Rule~~ 815 and ~~Rule~~ 816, either on a pro-rata basis or in such other manner as HKSCC shall consider fair and reasonable in the circumstances.

Without prejudice to the foregoing provisions regarding pro-rata payment in circumstances where the aggregate of the funds or assets available to HKSCC are insufficient to meet the aggregate of its liabilities to Participants under all Market Contracts subsisting at the time (other than those arising from China Connect Securities Trades), in respect of HKSCC's obligations to deliver Eligible Securities under Market Contracts, to the extent that HKSCC determines that it is not possible or reasonably practicable to deliver Eligible Securities, HKSCC's obligation shall be to make money compensation to Participants concerned in substitution for the delivery of Eligible Securities in whole or in part and in such amount as HKSCC may in its absolute discretion determine by reference to the market value of such Eligible Securities at the time of payment of compensation by HKSCC (or the value at such other time as HKSCC shall consider fair and reasonable in the circumstances). The money compensation shall be in such currency or currencies (whether in the Eligible Currency in which the Eligible Securities are denominated or otherwise) and at such conversion rate(s) as HKSCC may in its absolute discretion determine to be fair and reasonable, taking into account all relevant circumstances as it may consider appropriate.

Without prejudice to the foregoing provisions regarding pro-rata payment in circumstances where the aggregate of the funds or assets available to HKSCC are insufficient to meet the aggregate of its liabilities to Participants under all Market Contracts subsisting at the time (other than those arising from China Connect Securities Trades), in respect of HKSCC's obligations to make payment to Clearing Participants or Clearing Agency Participants under Market Contracts in an Eligible Currency in which the relevant securities are denominated or in a specified Eligible Currency, to the extent that HKSCC determines that it is not possible or reasonably practicable to make payment in such Eligible Currency, HKSCC's obligations shall be to make payment, in full or in part, in such other currency or currencies and at such conversion rate(s) as HKSCC may in its absolute discretion determine to be fair and reasonable, taking into account all relevant circumstances as it may consider appropriate.

CHAPTER 35

LATE DELIVERY OF SECURITIES - CNS SYSTEM

**3501. Default fee, stock borrowing and Buy-in for Eligible Securities other than China Connect Securities**

Subject to the Rules and except for Eligible Securities which are China Connect Securities, if a Clearing Participant or Clearing Agency Participant fails or considers prior to T+3 that it may be unable to deliver Eligible Securities on time under the CNS System by the final Batch-settlement-run of such Eligible Securities on the due date (i.e. T+2), then without prejudice to such other rights as it may have under the Rules, HKSCC reserves the right at any time:

- (i) to impose a default fee on any such Participant that ~~it~~ is in default, such fees to be of such amounts and to be payable at such times as shall be specified by HKSCC; and/or

**3501A. Default fee and Buy-in for China Connect Securities**

Subject to the Rules, if a China Connect Clearing Participant fails to deliver China Connect Securities on time by the final Batch-settlement-run of such China Connect Securities on the due date (i.e. T day), then without prejudice to such other rights as HKSCC may have under the Rules, HKSCC reserves the right at any time:

- (i) to impose a default fee on any such Participant that is in default, such fees to be of such amounts and to be payable at such times as shall be specified by HKSCC; and/or
- (ii) to execute on behalf of any such Participant on T+1 (or, if it is not practicable to do so on T+1, at any time thereafter) a Buy-in via the relevant Trading Link to purchase such China Connect Securities (up to the quantity required).

For the purpose of paragraph (ii) of this Rule 3501A, HKSCC may on behalf of that Participant instruct its authorized brokers to assist in executing such Buy-in via the Trading Link. HKSCC reserves the right to disclose the name and other details of such Participant to its authorized brokers assisting in effecting the Buy-in together with such details of the relevant Market Contract in respect of which a Buy-in is to be effected as HKSCC deems fit.

The rights given to HKSCC under this Rule 3501A are without prejudice to any other rights which HKSCC may have under the Rules as a result of such failure to deliver, including, but not limited to its rights under Rules 3701 to 3704.

In respect of any sums paid and/or Charged Property provided as Collateral by a China Connect Clearing Participant which has failed to deliver China Connect Securities under the CNS System, the only obligation of HKSCC in respect of any such sum so paid by such Participant and/or Charged Property provided by the Participant shall be to pay such Participant an amount equal to the balance remaining after satisfaction of all obligations and liabilities (actual or contingent) of such Participant to HKSCC and/or to return to such Participant the balance of the Charged Property remaining after satisfaction of all obligations and liabilities (actual or

contingent) of such Participant to HKSCC.

A Buy-in trade will be executed on behalf of the China Connect Clearing Participant in default to fulfil its delivery obligation and that Buy-in trade will normally be settled under the CNS System in CCASS in accordance with Rules 3301 to 3307 and 4106.

In the event that HKSCC executes a Buy-in on behalf of a China Connect Clearing Participant pursuant to this Rule, it shall do so at what it determines to be the best prevailing market price and terms available (but taking into account the fact that HKSCC may need to act promptly and provided that HKSCC shall have no liability if it acts in good faith).

Further, each such Participant on whose behalf HKSCC executes a Buy-in shall indemnify HKSCC against all costs, fees, expenses, liabilities, losses and damages of any nature whatsoever suffered or incurred by it directly or indirectly arising out of the execution of such a Buy-in by HKSCC.

For the avoidance of doubt, HKSCC may, but shall not be obliged to, take any one or more of the measures referred to in this Rule.

## CHAPTER 36

## RISK MANAGEMENT MEASURES - CNS SYSTEM

**3602. Collateral**

HKSCC shall be entitled from time to time to require a Clearing Participant or a Clearing Agency Participant to provide on demand collateral (including Concentration Collateral and Collateral required under Rule 4107(iii)) or additional collateral ("Collateral") in such form, to such extent and in such manner as is determined by HKSCC to be appropriate by reference to, inter alia, the level of exposure of such Participant to HKSCC (including, but not limited to, the risks associated with the effecting of Closing-out Contracts pursuant to Rule 3607 or 4107(x), ~~and~~ the risks of effecting Buy-ins pursuant to Rule 3501 or 3501A in the event of a default by the Participant and the risks associated with the clearing and settlement of China Connect Securities Trades) and such other matters as HKSCC shall consider relevant, all in accordance with the Rules.

Unless otherwise approved by HKSCC, it shall be mandatory for a Clearing Agency Participant which is participating in CCASS pursuant to a Clearing Link to provide to HKSCC as Collateral Security on T-day the relevant quantity of Eligible Securities representing its short stock positions in Market Contracts arising from Exchange Trades and no Marks will be payable on such short stock positions to the extent that they are so covered.

**3602A. Mainland Settlement Deposit and Mainland Security Deposit**

Each China Connect Clearing Participant shall on demand provide to HKSCC such amount of Mainland Settlement Deposit and Mainland Security Deposit as may from time to time be determined by HKSCC to be payable by the China Connect Clearing Participant in respect of its or its NCPs' China Connect Securities Trades.

HKSCC shall be entitled from time to time and at any time to compute Mainland Settlement Deposit and Mainland Security Deposit using the formulae set forth in the Operational Procedures or such other methods and assumptions as HKSCC may consider appropriate. Unless HKSCC otherwise specifies, Mainland Settlement Deposit will be computed with reference to the buy turnover in China Connect Securities and any overdue short CNS stock positions in China Connect Securities of a China Connect Clearing Participant and its NCPs and Mainland Security Deposit will be computed with reference to the net settlement amount in China Connect Securities Trades of the China Connect Clearing Participant and its NCPs under the CNS System.

**3605. Evidence of Securities available for settlement**

In relation to Exchange Trades, China Connect Securities Trades or Clearing Agency Transactions in Eligible Securities which are subject to expiry (e.g. warrants) or which HKSCC considers as high risk securities and which are to be settled under the CNS System, the delivering Clearing Participant, delivering China Connect Clearing Participant or the delivering Clearing Agency Participant as the case may be must ensure that when they or, in the case of GCPs, including their NCPs, place a selling order or in the case of a Clearing Agency Transaction when the transaction is reported

to HKSCC by the Clearing Agency Participant they have readily available evidence showing that, on or before the due date for settlement of the Market Contracts, they have or will have the required quantity of Eligible Securities in their stock accounts in CCASS for settlement of the Market Contracts. The delivering Clearing Participant, delivering China Connect Clearing Participant or delivering Clearing Agency Participant, as the case may be, shall provide the evidence to HKSCC upon request.

CHAPTER 37

DEFAULT RULES - CNS SYSTEM

**3701. Events of Default**

In the event that:-

- (iii) a Clearing Participant ceases to be a licensed corporation licensed or a registered institution registered to carry on Type 1 regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) or fails to comply with the rules and regulations applicable to such licensed corporation or registered institution;
- (x) ~~Repealed~~ a Clearing Agency Participant, in its capacity as a China Connect Clearing House under a Clearing Link, defaults in any delivery or payment obligations to HKSCC under the Clearing Link;
- (xii) in respect of a Clearing Agency Participant that is a “recognized clearing house” under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as the term is defined therein, if it ceases to be so recognized; or

**3702. Actions on default**

Without prejudice to any other provision of the Rules, the actions which HKSCC may take as referred to in Rule 3701 are:-

- (i) to effect Closing-out Contracts in accordance with Rule 3607 and Rule 4107(x);
- (ii) to sell or apply Marks, Margin, Mainland Settlement Deposit, Mainland Security Deposit, Collateral, Specific Cash Collateral, Charged Property (including, but not limited to, Derived Assets credited to the Entitlement Account of a defaulting Clearing Participant or Clearing Agency Participant), any Eligible Securities held by HKSCC (irrespective of whether they are held in lieu of Marks, Margin and/or Collateral, or for HKSCC’s waiver in computation of Marks and reduction of Margining Position for computation of Margin) and any security furnished by a defaulting Clearing Participant or Clearing Agency Participant, without further reference to the Clearing Participant or Clearing Agency Participant and to execute all such documents and take all such action as may be necessary in connection therewith, if appropriate, on behalf of the Clearing Participant or Clearing Agency Participant;

## CHAPTER 40

## CLEARING BY GENERAL CLEARING PARTICIPANTS

**4001. Execution of Clearing Agreement**

Every GCP which intends to clear and settle Exchange Trades ~~and~~, Clearing Agency Transactions and/or China Connect Securities Trades for NCPs shall enter into a Clearing Agreement in such form or containing such provisions as may from time to time be required by HKSCC with each NCP the Exchange Trades ~~and~~, Clearing Agency Transactions and/or China Connect Securities Trades of which it clears and settles. Except as otherwise approved by HKSCC and subject to such terms and conditions as HKSCC may from time to time specify, a GCP shall not accept for clearing and settlement of any Exchange Trades, ~~and~~ Clearing Agency Transactions and/or China Connect Securities Trades of an NCP unless and until there is in place a valid, binding and effective Clearing Agreement between it and the NCP. Every GCP which is a TSF CCASS Participant which intends to clear and settle TSF Exchange Trades for NCPs shall, in addition to the above, comply with Rule 12A21. Every GCP which is a China Connect Clearing Participant which intends to clear and settle China Connect Securities Trades for NCPs shall, in addition to the above, comply with Rule 4104.

**4002. Notification of execution of Clearing Agreement**

A GCP shall notify HKSCC of each Clearing Agreement it entered into with an NCP forthwith upon its execution. Such notification shall be in such form as HKSCC may from time to time specify. The GCP shall, at the request of HKSCC, supply it with a certified copy of the executed Clearing Agreement.

**4003. Obligations of GCP**

A GCP shall capture all liabilities for all the Exchange Trades, ~~and~~ Clearing Agency Transactions and/or China Connect Securities Trades concluded by each NCP with which it has entered into a Clearing Agreement, as if it ~~were~~ a party to these trades and transactions and shall not be entitled to decline to settle and clear any Exchange Trades, ~~and~~ Clearing Agency Transactions and/or China Connect Securities Trades of the NCP. A GCP shall have arrangement in place with each NCP for the NCP to notify it of all Exchange Trades, Clearing Agency Transactions and/or China Connect Securities Trades concluded by the NCP, ~~and all Clearing Agency Transactions of which the NCP is a party.~~

A GCP shall have arrangement in place to monitor the ability of each NCP with whom it has entered into a Clearing Agreement to satisfy promptly all obligations arising from the Exchange Trades, ~~and~~ Clearing Agency Transactions and/or China Connect Securities Trades concluded by such NCP. A GCP must forthwith notify HKSCC of any failure of its NCP to meet its obligations under the Clearing Agreement.

A GCP shall, within a period as HKSCC may specify, provide information in its possession about its NCPs to HKSCC, including but not limited to, financial position, an NCP's underlying client information or any other information or documents as HKSCC may demand.

Every GCP which is a TSF CCASS Participant which intends to clear and settle TSF Exchange Trades for NCPs shall, in addition to the above, comply with Rule 12A21. Every GCP which is a China Connect Clearing Participant which intends to clear and settle China Connect Securities Trades for NCPs shall, in addition to the above, comply with Rule 4104.

#### **4004. Termination of Clearing Agreement**

When HKSCC receives a termination notice from a GCP or when HKSCC receives notification from the Exchange that notice to terminate the Clearing Agreement had been given by an NCP, HKSCC will issue a confirmation of termination to the GCP (with a copy to the NCP concerned) in writing and unless and until written confirmation has been issued to the GCP, the Clearing Agreement shall be treated as valid, binding and effective by HKSCC for the purposes of these Rules notwithstanding any provision to the contrary in the Clearing Agreement and/or the termination notice from the GCP or the NCP and the GCP shall continue to be bound by the Clearing Agreement and responsible for all the Exchange Trades ~~and~~, Clearing Agency Transactions and/or China Connect Securities Trades concluded by such NCP.

**CHAPTER 41**

**CHINA CONNECT CLEARING SERVICES**

**4101. Cross-boundary Clearing Links**

HKSCC and a China Connect Clearing House may enter into Clearing Links (a) to facilitate the clearing and settlement of securities trades which are executed on a China Connect Market by or for Exchange Participants under a Trading Link, including China Connect Securities; and (b) to provide depository, nominee and other services to Participants in respect of such securities.

This Chapter 41 sets out the provisions that apply to (i) China Connect Clearing Participants which participate as China Connect Exchange Participants or which act as General Clearing Participants for China Connect Exchange Participants in respect of China Connect Securities Trades executed on a China Connect Market via a Trading Link; and (ii) Participants other than Investor Participants to which China Connect Clearing Services may be provided by HKSCC.

**4102. China Connect Clearing Services**

HKSCC may provide such services as it may consider appropriate to Participants other than Investor Participants in accordance with the provisions of the Rules for the purposes referred to in Rule 4101 regarding a Clearing Link. Such services may include, without limitation, the following:

- (a) the clearing and settlement of China Connect Securities Trades with China Connect Clearing Participants by HKSCC in its capacity as central clearing party to China Connect Clearing Participants and as participating clearing house and clearing participant of the relevant China Connect Clearing House; and
- (b) the provision of nominee and depository services by HKSCC in its capacity as registered holder of China Connect Securities.

The use of China Connect Clearing Services by Participants shall be subject to such terms and conditions and the payment of such fees as HKSCC may from time to time prescribe.

**4103. China Connect Clearing Participants and Eligibility Criteria for Registration**

Only China Connect Clearing Participants may use China Connect Clearing Services relating to the clearing and settlement of China Connect Securities Trades.

To be accepted for registration and to remain registered as a China Connect Clearing Participant, a Participant must:

- (a) be a Direct Clearing Participant or a General Clearing Participant;
- (b) undertake to pay HKSCC such amount of Mainland Settlement Deposit, Mainland Security Deposit, Marks, Collateral and Mainland Clearing Risk

Fund as may be specified by HKSCC in accordance with the Operational Procedures; and

(c) meet all other relevant China Connect Clearing Participant Registration Criteria.

HKSCC may from time to time prescribe additional eligibility criteria for Participants to be accepted for registration and to remain registered as China Connect Clearing Participants. HKSCC may prescribe different eligibility criteria for registration in respect of different China Connect Markets and different China Connect Securities under different Clearing Links. HKSCC will publish the China Connect Clearing Participant Registration Criteria and a list of China Connect Clearing Participants on the HKEx website or by such other means as it considers appropriate.

Applications under this Rule 4103 must be made in writing in such form as HKSCC may from time to time prescribe. Participants may be required to make separate applications with respect to the clearing and settlement of China Connect Securities Trades in different China Connect Markets under different Clearing Links. Approval may be given subject to such terms and conditions as HKSCC may consider appropriate.

#### **4104. General Clearing Participants as China Connect Clearing Participants**

Only General Clearing Participants which are China Connect Clearing Participants shall be eligible to clear and settle China Connect Securities Trades for NCPs which are China Connect Exchange Participants.

A General Clearing Participant which is a China Connect Clearing Participant and which intends to clear and settle China Connect Securities Trades for NCPs which are China Connect Exchange Participants shall:

- (i) ensure that the Clearing Agreement it enters into with each such NCP includes an obligation on its part to settle China Connect Securities Trades. Such General Clearing Participant should bring its NCPs' attention to the special features and restrictions of the China Connect Securities Trades as highlighted in paragraph (vi) below with regard to the execution of selling orders for China Connect Securities via the Trading Link, HKSCC's powers and other matters as set out in this Chapter 41;
- (ii) be liable to HKSCC for all the China Connect Securities Trades concluded by each such NCP with which it has entered into a Clearing Agreement, as if it were a party to these trades and shall not be entitled to decline to settle and clear any China Connect Securities Trades of the NCP;
- (iii) have arrangements in place with each such NCP for the NCP to notify it of all China Connect Securities Trades concluded by or for the NCP;
- (iv) have arrangements in place to monitor the ability of each such NCP with whom it has entered into a Clearing Agreement to satisfy promptly all obligations arising from the China Connect Securities Trades concluded by or for such NCP;

- (v) forthwith notify HKSCC of any failure of any NCP to meet its obligations under the Clearing Agreement; and
- (vi) designate its CCASS stock accounts, which may either be its stock accounts or specific SSAs with Statement Service, to such NCPs for the purposes of maintaining their holdings of China Connect Securities in CCASS and for facilitating the determination of the maximum amount of China Connect Securities that may be sold by an NCP on a particular Trading day. Subject to the Rules and the Exchange Rules, a General Clearing Participant shall ensure that such account designation is performed accurately and properly, and shall have measures in place to ensure that each of its NCPs will not place or execute selling orders for any China Connect Security via the Trading Link such that the aggregate selling quantity of such China Connect Security on a Trading day is in excess of the aggregate holding of the China Connect Security in the CCASS stock account(s) designated to the NCP as of the end of the immediately preceding batch-settlement run of Settlement Instructions on China Connect Securities effected by HKSCC.

#### **4105. China Connect Securities and China Connect Clearing Houses**

HKSCC may accept any China Connect Securities that are executed via a Trading Link as Eligible Securities under Rule 501 and may discontinue the acceptance of any China Connect Securities as Eligible Securities under Rule 502.

HKSCC will establish and maintain the following lists and will publish them on the HKEx website or by such other means as it considers appropriate:

- (a) a list of China Connect Securities that are accepted as Eligible Securities;
- (b) a list of China Connect Clearing Houses with which it has entered into Clearing Links; and
- (c) a list of China Connect Clearing Participants as mentioned in Rule 4103.

#### **4106. Clearing and settlement of China Connect Securities Trades**

- (a) Any China Connect Clearing Services in relation to clearing and settlement shall be provided by HKSCC in accordance with the following principles:
  - (i) any China Connect Securities Trade shall, similar to the clearing and settlement arrangements for other non-China Connect Securities Trades on the relevant China Connect Market, be cleared and settled by the relevant China Connect Clearing House in accordance with its rules and procedures; and
  - (ii) in addition, HKSCC shall, in its capacity as participating clearing house and clearing participant of the relevant China Connect Clearing House and in its capacity as central clearing party to China Connect Clearing Participants, provide clearing and settlement services in respect of China Connect Securities Trades to China Connect Clearing Participants.

- (b) In relation to any China Connect Securities Trade executed by the SEHK Subsidiary for a China Connect Exchange Participant with a member of the relevant China Connect Market, HKSCC and the relevant China Connect Clearing Participant agrees that:
- (i) the rights and obligations of the parties to the China Connect Securities Trade (or of their respective participants of the China Connect Clearing House, if the relevant party is not itself a participant of the China Connect Clearing House) shall be transferred to the China Connect Clearing House, which becomes substituted as the sole settlement counterparty of each of the buyer and seller of the China Connect Securities Trade, in accordance with the rules of the relevant China Connect Clearing House;
  - (ii) at the same time as such transfer of rights and obligations to the China Connect Clearing House, there shall be created through Novation a Market Contract between HKSCC and the relevant China Connect Clearing Participant on the same terms as the rights and obligations created pursuant to the rules of the relevant China Connect Clearing House between HKSCC and the China Connect Clearing House under (i) above, but with the China Connect Clearing Participant taking on the rights and obligations of HKSCC and HKSCC taking on the rights and obligations which are assumed by the China Connect Clearing House from the other participant of the China Connect Clearing House under the China Connect Securities Trade as mentioned in (i) above;
  - (iii) the relevant China Connect Clearing Participant referred to in (ii) above shall be the China Connect Exchange Participant for whom the China Connect Securities Trade was executed or, if it is not a China Connect Clearing Participant, its General Clearing Participant; and
  - (iv) the arrangements set out in this Rule 4106(b) shall be construed to amount to the Novation or replacement of the China Connect Securities Trade, at the time of transfer of the rights and obligations to the relevant China Connect Clearing House, into or by:
    - (1) the relevant rights and obligations between the relevant participant of the China Connect Clearing House and the China Connect Clearing House pursuant to its rules, as referred to in (i) above;
    - (2) the relevant rights and obligations between HKSCC and the China Connect Clearing House pursuant to its rules, as referred to in (i) above; and
    - (3) a Market Contract between HKSCC and the China Connect Clearing Participant pursuant to the Rules, as referred to in (ii) above.
- (c) In relation to any China Connect Securities Trade executed between the SEHK Subsidiary for a China Connect Exchange Participant on the one side and the SEHK Subsidiary for another China Connect Exchange Participant on the other side:
- (i) the provisions of Rule 4106(b) shall mutatis mutandis apply except that, at

the same time as such transfer of rights and obligations to the relevant China Connect Clearing House whereby the relevant China Connect Clearing House becomes substituted as the buyer to HKSCC as seller on the one side and as the seller to HKSCC as buyer on the other side, there shall be created through Novation two Market Contracts as follows:

(1) a contract between HKSCC and one relevant China Connect Clearing Participant on the same terms as the rights and obligations created between HKSCC as seller and the China Connect Clearing House as buyer as aforesaid, but with the China Connect Clearing Participant taking on the rights and obligations of HKSCC as seller and HKSCC taking on the rights and obligations which are assumed by the China Connect Clearing House as buyer; and

(2) an equal but opposite contract between the other relevant China Connect Clearing Participant and HKSCC on the same terms as the rights and obligations created between HKSCC as buyer and the China Connect Clearing House as seller as aforesaid, but with the China Connect Clearing Participant taking on the rights and obligations of HKSCC as buyer and HKSCC taking on the rights and obligations which are assumed by the China Connect Clearing House as seller;

(ii) the arrangements set out in this Rule 4106(c) shall be construed to amount to the Novation or replacement of the China Connect Securities Trade, at the time of transfer of rights and obligations to the relevant China Connect Clearing House, into or by:

(1) a Market Contract between the first relevant China Connect Clearing Participant and HKSCC pursuant to the Rules;

(2) the relevant rights and obligations between HKSCC and the China Connect Clearing House corresponding to such contract pursuant to its rules;

(3) another Market Contract between the other relevant China Connect Clearing Participant and HKSCC pursuant to the Rules; and

(4) the relevant rights and obligations between HKSCC and the China Connect Clearing House corresponding to such other contract pursuant to its rules.

(d) Each Market Contract between the relevant China Connect Clearing Participant and HKSCC arising from the Novation of the China Connect Securities Trade as described in this Rule 4106 shall be settled by the China Connect Clearing Participant in accordance with the Rules with HKSCC in its capacity as participating clearing house of the China Connect Clearing House. HKSCC, in its capacity as participating clearing house and also a clearing participant of the China Connect Clearing House, will in turn settle the relevant rights and obligations between HKSCC and the China Connect Clearing House arising from the China Connect Securities Trade as described in this Rule 4106 in accordance with the rules of the China Connect Clearing House, subject to any

Clearing Link Agreement which HKSCC may have entered into with such China Connect Clearing House.

#### **4107. Risk Management Measures applicable to China Connect Securities Trades**

##### **i. Mainland Settlement Deposit and Mainland Security Deposit**

Each China Connect Clearing Participant shall on demand provide to HKSCC such amount of Mainland Settlement Deposit and Mainland Security Deposit as may from time to time be determined by HKSCC to be payable by the China Connect Clearing Participant in respect of its or its NCPs' China Connect Securities Trades.

HKSCC shall be entitled from time to time and at any time to compute Mainland Settlement Deposit and Mainland Security Deposit using the formulae set forth in the Operational Procedures or such other methods and assumptions as HKSCC may consider appropriate. Unless HKSCC otherwise specifies, Mainland Settlement Deposit will be computed by reference to the buy turnover in China Connect Securities and any overdue short CNS stock positions in China Connect Securities of a China Connect Clearing Participant and its NCPs and Mainland Security Deposit will be computed by reference to the net settlement amount in China Connect Securities Trades of the China Connect Clearing Participant and its NCPs under the CNS System.

The calculation and collection of Mainland Settlement Deposit and Mainland Security Deposit shall be made in accordance with the Operational Procedures.

HKSCC shall have the right to satisfy its obligations as clearing participant to the China Connect Clearing House under the relevant Clearing Link with, or otherwise use, the Mainland Settlement Deposit and Mainland Security Deposit collected from China Connect Clearing Participants.

##### **ii. Marks**

HKSCC shall be entitled from time to time and at any time Mark-to-market all unsettled CNS stock positions in China Connect Securities of a China Connect Clearing Participant by reference to the market price of the China Connect Securities.

Each China Connect Clearing Participant shall on demand provide to HKSCC such amounts of Marks as may be considered appropriate by HKSCC as a result of the Mark-to-market of all unsettled CNS stock positions in China Connect Securities to which such Participant is a party.

The calculation and collection of Marks shall be made in accordance with the Operational Procedures.

##### **iii. Collateral**

Each China Connect Clearing Participant shall on demand provide to HKSCC such Collateral in such form, to such extent and in such manner as may from time to time be determined by HKSCC to be appropriate by reference to, inter alia, the

level of exposure of such China Connect Clearing Participant to HKSCC (including, but not limited to, the risks associated with the effecting of Closing-out Contracts relating to China Connect Securities pursuant to Rule 3607 in the event of a default by the China Connect Clearing Participant) and such other matters as HKSCC shall consider relevant, all in accordance with the Rules.

A China Connect Clearing Participant providing Collateral to HKSCC, where applicable, represents and warrants in favour of HKSCC that it has title and authority to provide such Collateral to HKSCC, free from all liens, charges, encumbrances, equities and all other third party rights of any nature whatsoever.

**iv. Form of Mainland Settlement Deposit, Mainland Security Deposit, Marks and Collateral**

Unless HKSCC otherwise approves or the Operational Procedures otherwise provide, China Connect Clearing Participants shall provide Mainland Settlement Deposit, Mainland Security Deposit, Marks and Collateral required pursuant to Rules 4107(i) to (iii) in the form of cash in Renminbi. The provision of Mainland Settlement Deposit, Mainland Security Deposit, Marks and/or Collateral in any other currency or any other form, if it is accepted by HKSCC, shall be subject to such conditions and up to such limits as HKSCC may from time to time determine.

HKSCC may without prior notice to the relevant China Connect Clearing Participant apply all or any of the Mainland Settlement Deposit, Mainland Security Deposit, Marks and/or Collateral (including all rights and entitlements thereto, if any) provided by it in or towards the satisfaction of any of its obligations and liabilities (actual or contingent) to HKSCC. The only obligation of HKSCC to such Participant in respect of any Mainland Settlement Deposit, Mainland Security Deposit, Marks and/or Collateral provided to HKSCC shall be to pay such Participant an amount equal to the balance remaining after satisfaction of all such obligations and liabilities.

HKSCC has absolute discretion to determine the order of application of such Mainland Settlement Deposit, Mainland Security Deposit, Marks and/or Collateral in such manner as it considers appropriate.

A China Connect Clearing Participant shall not create or permit to subsist any mortgage, charge or other encumbrance over all or any of the Mainland Settlement Deposit, Mainland Security Deposit, Marks and/or Collateral provided by it to HKSCC. The Mainland Settlement Deposit, Mainland Security Deposit, Marks and/or Collateral shall be in addition to and independent of any cover provided to HKSCC and any security which HKSCC may at any time hold for the obligations and liabilities of such China Connect Clearing Participant.

**v. Mainland Settlement Deposit, Mainland Security Deposit, Marks and Collateral in the form of cash**

Cash in Renminbi or any other currency provided by a China Connect Clearing Participant to HKSCC pursuant to Rules 4107(i), 4107(ii) and/or 4107(iii) shall be recorded as credit entries in the CCMS House Collateral Account (or any other CCMS Collateral Account as determined by HKSCC) of the Participant. The

only obligation of HKSCC to the Participant in respect of such amounts shall be to pay the Participant an amount equal to the balance remaining after satisfaction of all obligations and liabilities (actual or contingent) of such Participant to HKSCC.

**vi. Guarantee Fund**

A China Connect Clearing Participant's money settlement obligations and CNS positions in China Connect Securities shall be included in the determination of the China Connect Clearing Participant's Contributions to the Guarantee Fund. The calculation of the Contributions by a Clearing Participant to the Guarantee Fund, whether or not it is a China Connect Clearing Participant, shall be made in accordance with the Operational Procedures.

**vii. Mainland Clearing Risk Fund**

Each China Connect Clearing Participant shall on demand provide to HKSCC such contributions to the Mainland Clearing Risk Fund as may from time to time be determined by HKSCC to be payable by the China Connect Clearing Participant in respect of its or its NCPs' China Connect Securities Trades if HKSCC as a clearing participant of the China Connect Clearing House under the relevant Clearing Link is required to contribute to the Settlement Risk Fund administered by the China Securities Regulatory Commission and the Ministry of Finance of Mainland China.

HKSCC shall be entitled from time to time and at any time to compute a China Connect Clearing Participant's required contributions to the Mainland Clearing Risk Fund using the formula set forth in the Operational Procedures or such other methods and assumptions as HKSCC may consider appropriate. Unless HKSCC otherwise specifies, Mainland Clearing Risk Fund contribution requirements will be computed with reference to the turnover in China Connect Securities of a China Connect Clearing Participant and its NCPs.

The calculation and collection of contributions to the Mainland Clearing Risk Fund shall be made in accordance with the Operational Procedures.

Unless HKSCC otherwise approves or the Operational Procedures otherwise provide, China Connect Clearing Participants shall provide Mainland Clearing Risk Fund required pursuant to this Rule 4107(vii) in the form of cash in Renminbi. The provision of Mainland Clearing Risk Fund in any other currency or any other form, if it is accepted by HKSCC, shall be subject to such conditions and up to such limits as HKSCC may from time to time determine.

HKSCC shall have the right to satisfy its obligations to contribute to the Settlement Risk Fund administered by the China Securities Regulatory Commission and the Ministry of Finance of Mainland China or any other risk fund as clearing participant to the China Connect Clearing House under the relevant Clearing Link with contributions to the Mainland Clearing Risk Fund collected from China Connect Clearing Participants.

Contributions to the Mainland Clearing Risk Fund paid by China Connect Clearing Participants are non-repayable and will not be returned or redelivered to

China Connect Clearing Participants by HKSCC, unless otherwise determined by HKSCC.

**viii. Securities-on-hold**

Until such time as HKSCC is satisfied that (i) it has received payment in full in respect of China Connect Securities delivered by HKSCC to a China Connect Clearing Participant under the CNS System on a particular Settlement Day; and (ii) such payment is good and irrevocable, or unless otherwise agreed by HKSCC, title, property or any interest in such China Connect Securities (“Securities-on-hold”) shall not pass to the China Connect Clearing Participant.

For the avoidance of doubt, title, property or interest in Securities-on-hold shall be deemed to have passed when such China Connect Clearing Participant is allowed by HKSCC to use or transfer such China Connect Securities in CCASS but at any time before then, HKSCC shall be free to use or apply such China Connect Securities in such manner as HKSCC considers appropriate.

**ix. Money compensation and payment obligations**

In addition to any other rights HKSCC may have under the Rules:

- (i) where HKSCC has an obligation to deliver securities under a Market Contract in any China Connect Security, HKSCC may in lieu of delivering securities make money compensation to the China Connect Clearing Participant concerned notwithstanding that such securities may be available in the relevant market. HKSCC shall only exercise its powers under this Rule in circumstances when HKSCC considers in its reasonable opinion that the securities are not freely available in the relevant market. The money compensation shall be in such amount and in such currency or currencies (whether in the Eligible Currency in which the securities are denominated or otherwise) as HKSCC considers to be fair and reasonable having regard to all the circumstances of the case;
- (ii) where HKSCC has an obligation to make payment under a Market Contract in any China Connect Security in an Eligible Currency in which the relevant securities are denominated or in a specified Eligible Currency, notwithstanding that the relevant Eligible Currency may be available, HKSCC may in lieu of making payment in that Eligible Currency make payment to the China Connect Clearing Participant concerned, in full or in part, in such other currency or currencies and at such conversion rate(s) as HKSCC may in its absolute discretion determine to be fair and reasonable having regard to all the circumstances of the case. HKSCC shall only exercise its powers under this Rule in circumstances when HKSCC considers in its reasonable opinion that the relevant Eligible Currency is not freely available or convertible in the market.

**x. Closing-out**

If at any time HKSCC decides that an Event of Default exists in relation to a China Connect Clearing Participant, HKSCC may, in respect of the obligations of such China Connect Clearing Participant arising out of all or any Market

Contracts in China Connect Securities to which it is a party and which are unsettled at the time (whether or not due for settlement), on behalf of the China Connect Clearing Participant, enter into Closing-out Contracts at what it determines to be the best prevailing market price and terms available (but taking into account that HKSCC may need to act promptly and provided that HKSCC shall have no liability if it acts in good faith) and for such purpose, HKSCC may instruct other authorized brokers to assist.

Each defaulting China Connect Clearing Participant shall indemnify HKSCC against all costs, fees, expenses, liabilities, losses and damages of any nature whatsoever suffered or incurred by it directly or indirectly arising out of the entering into such Closing-out Contracts by HKSCC.

#### **xi. Obligations of HKSCC in respect of China Connect Securities Trades**

Notwithstanding any provisions of the Rules to the contrary, the obligations of HKSCC under a Market Contract arising from a China Connect Securities Trade shall be limited exclusively to:

- (a) the amount of securities or payments it receives from the China Connect Clearing House in respect of such China Connect Securities Trade; and
- (b) amounts recovered by HKSCC from the China Connect Clearing House pursuant to any claims that may be made by HKSCC against the China Connect Clearing House.

To the extent that the aggregate of the amounts received or recovered from the China Connect Clearing House is insufficient at any time to meet the aggregate of HKSCC's liabilities to China Connect Clearing Participants under all Market Contracts arising from China Connect Securities Trades subsisting at any time (whether due to the insolvency or winding-up of the China Connect Clearing House or any breach, default or inability to perform any of its obligations under the relevant Clearing Link or any other reason), each China Connect Clearing Participant to which HKSCC is liable shall only be entitled to receive payment or delivery of securities pro rata according to the amount due to it as compared with the aggregate due to all China Connect Clearing Participants as determined by HKSCC. HKSCC shall remain liable on all such Market Contracts which remain to be settled by HKSCC, but payment or delivery of the balance of any amounts due shall only be made as and when, and to the extent that, the amounts are subsequently received or recovered from the China Connect Clearing House.

#### **4108. Fees and charges of China Connect Clearing Houses**

Participants shall pay all fees, charges, levies and taxes that are required by the relevant China Connect Clearing House or applicable laws to be payable in respect of the China Connect Securities that are maintained in HKSCC's account with the China Connect Clearing House, including all fees, charges, levies and taxes relating to the clearing, settlement, custodian and other services that may be provided in respect of such China Connect Securities. HKSCC will publish information on fees, charges, levies and taxes payable and the manner of collection on the HKEx website or through such other means as HKSCC considers appropriate.

**4109. Conditions and restrictions on the use of China Connect Clearing Services**

HKSCC has absolute discretion to impose or amend conditions or restrictions for access to or the use of China Connect Clearing Services from time to time for the purpose of ensuring that the clearing and settlement of China Connect Securities and the depository, nominee and other services relating to China Connect Securities through the use of China Connect Clearing Services will not contravene applicable laws or for any other reasons which HKSCC considers appropriate. Different conditions or restrictions may be prescribed in respect of different China Connect Securities and China Connect Markets. HKSCC will publish the conditions or restrictions on the HKEx website or through such other means as HKSCC considers appropriate. Participants shall comply with all such conditions and restrictions in all respects.

**4110. Compliance with applicable laws and the Rules**

**i. General**

Each Participant holding China Connect Securities through HKSCC and each Participant registered as a China Connect Clearing Participant agrees and represents to HKSCC that it shall, for so long as it continues to have such holding or remains so registered, comply with and abide by:

- (a) all applicable laws with regard to any interest it may have in China Connect Securities that are held through HKSCC, including laws and regulations relating to shareholding, transfer or off-market dealing restrictions, disclosure of interests and payment of taxes; and
- (b) the Rules and any requirements, conditions, restrictions, arrangements and other stipulations that may be issued or published pursuant to the Rules with regard to the clearing and settlement of China Connect Securities or the use of China Connect Clearing Services.

A Participant is subject to and shall comply with this Chapter 41 in addition to those applicable to it under the other provisions of the Rules, unless otherwise determined by HKSCC. For the avoidance of doubt, nothing in this Chapter 41 shall affect or relieve the obligations and liabilities of a Participant under the Rules.

HKSCC may suspend, restrict or terminate a Participant's access to or use of any China Connect Clearing Services where the Participant fails to comply with the Rules including any provision in this Chapter 41. This is without prejudice to any other action that HKSCC may take against the Participant or any other rights of HKSCC.

**ii. Obligation to provide information**

Without prejudice to the generality of Rule 2804, HKSCC may direct a Participant to provide it with such information or document in Chinese (or where the information or document is not in the Chinese language, a Chinese translation thereof) as required by a China Connect Clearing House or a relevant governmental, regulatory or competent authority for the purpose of any investigation within a

period specified by HKSCC.

**iii. Restrictions on non-trade transfers**

In accordance with the requirements of the relevant governmental, regulatory or competent authority, Participants shall not effect any non-trade transfer or settlement of transactions in China Connect Securities in CCASS outside of the relevant Trading Link, other than any transfer or settlement as a result of succession, divorce, the dissolution, liquidation or winding-up of any company or corporation, donation to a charitable foundation, or assisting in any enforcement in connection with proceedings or action taken by any court, prosecutor or law enforcement agency, or any other transfer as may be permitted by the China Securities Regulatory Commission.

**iv. Shareholding restrictions**

In the event that HKSCC, the Exchange or the SEHK Subsidiary is notified by the relevant China Connect Market, China Connect Clearing House or governmental, regulatory or competent authority that HKSCC's holding in a China Connect Security for Participants has caused any foreign shareholding limit to be exceeded in breach of any applicable law, HKSCC shall have the power to require Participants, as determined by HKSCC on a last-in-first-out basis, to reduce such amount of holdings in their respective Stock Accounts within such time period as may be required by HKSCC such that the applicable foreign shareholding limit will no longer be exceeded.

Upon receipt of a Forced-Sale Notice, the Participant shall:

- (a) notify HKSCC of such information as may be requested by HKSCC, including the particulars of the persons (as determined on a last-in-first-out basis) whose holdings in the China Connect Security need to be sold, details of such holdings, and if such holdings have been transferred by Settlement Instructions to the custody of any other Participant, details of such Participant(s);
- (b) where any of the holdings are for the account of the Participant itself, sell such holdings in the China Connect Security by the required amount within the time period specified in the Forced-Sale Notice;
- (c) where any of the holdings are for the account of a client, instruct such client to sell its holdings in the China Connect Security by the required amount within the time period specified in the Forced-Sale Notice;
- (d) unless its or the relevant client's holdings in the China Connect Security have already been transferred to another Participant by the time the Forced-Sale Notice is received, ensure that such holdings are not transferred by Settlement Instruction or otherwise out of the Stock Accounts of the Participant except for the settlement of the sale of such holdings as required under the Forced-Sale Notice;
- (e) where the relevant client's holdings remain in or have been transferred back to the Stock Accounts of the Participant but its client fails to effect the sale of its

holdings as required within the period specified by HKSCC, the Participant shall effect such sale on behalf of the client on the Trading day immediately following the expiry of such period. Participants shall have arrangements and authorizations in place to enable them to effect such sale on behalf of their clients should they fail to do so within the specified time period; and

- (f) once its and/or its clients' holdings have been sold as required, notify HKSCC and provide HKSCC with such supporting document as it may require.

In the event that a Participant which is a GCP has been notified by HKSCC or has otherwise been informed that any NCP of the Participant has been issued with a Forced-Sale Notice, the Participant shall ensure that such NCP's relevant holdings (to the extent they still remain in the Participant's Stock Account) are not transferred by Settlement Instruction or otherwise out of the Stock Accounts of the Participant except for the settlement of the sale of such relevant holdings as required under the Forced-Sale Notice. If by the time it is notified of the Forced-Sale Notice, the relevant holdings of the NCP have already been transferred to another Participant, the Participant shall provide HKSCC with such details of such other Participant as HKSCC may require.

Notwithstanding the above, in the event that the aggregate foreign shareholding in the relevant China Connect Security is reduced to below the statutory limit after a Forced-Sale Notice is served on the Participant or an NCP of the Participant, and the Participant has been notified that the Forced-Sale Notice no longer applies, the Participant shall not be obliged to comply with paragraphs (d) to (f) above or the immediately preceding paragraph in respect of all or part (as the case may be) of its clients' or NCPs' holdings in the China Connect Security.

If the relevant holdings of the Participant's clients or NCPs have already been transferred to any other Participant by the time a Forced-Sale Notice is received as mentioned above, such other Participant shall:

- (a) provide such confirmation to HKSCC as it may require regarding the clients' or NCPs' holdings in the China Connect Security;
- (b) transfer such clients' or NCPs' holdings back to the original Participant by way of Settlement Instruction within such time period as may be specified by HKSCC unless prior to the expiry of such period, a waiver from compliance with the sale requirement has been notified to the Participant. Participants shall have arrangements and authorizations in place to enable them to effect such transfers on behalf of their clients should their clients fail to expressly instruct them to do so within the specified time period; and
- (c) once such clients' or NCPs' holdings have been transferred back to the original Participant, notify HKSCC and provide HKSCC with such supporting documents as it may require.

#### **4111. Suspension and Cessation of Operation of China Connect Clearing Services and emergency arrangements**

Without prejudice to its right under Rule 2601, HKSCC may temporarily suspend or restrict the China Connect Clearing Services or any part thereof in its sole and

absolute discretion. Suspension or restriction may be in respect of all or any of the China Connect Securities or any one or more China Connect Markets or China Connect Clearing Houses, and for such duration and frequency as HKSCC may consider appropriate.

The circumstances under which the powers under this Rule 4111 may be exercised include, without limitation, the following:

- (a) in the judgment of HKSCC, orderly, fair and expeditious clearing and settlement arrangements for any transactions in China Connect Securities may not exist or be maintained;
- (b) in the judgment of HKSCC, there are operational or technical issues which must be resolved before the China Connect Clearing Services should continue to be made available or not be restricted;
- (c) where the Commission, a relevant governmental, regulatory or competent authority or a China Connect Clearing House has requested for a suspension or restriction of the China Connect Clearing Services or any part thereof; and
- (d) where all or part of the relevant Clearing Link or Trading Link is suspended for any reason.

If HKSCC decides to suspend or restrict the China Connect Clearing Services or any part thereof under this Rule 4111, HKSCC shall publish an announcement on the HKE<sub>x</sub> website or by such other means as HKSCC considers appropriate, stating the nature of the suspension or restriction, the effective date and time of suspension or restriction and any other information as HKSCC considers appropriate.

If in the opinion of HKSCC, the operation or functioning of the China Connect Clearing Services is, or is likely to be, severely or adversely threatened or affected by an emergency including but not limited to fire or other casualty or accident, typhoon, rainstorm, power outage, communications breakdown, system failure, computer malfunction, war, riot, civil commotion, labour strike, material change of law or issue of any governmental or regulatory order, decree or judgment having significant impact on the continuous operation of the China Connect Clearing Services, a China Connect Clearing House or a China Connect Market Operator or other similar events, HKSCC shall have full authority to take such actions, steps or measures, whether in relation to the China Connect Clearing Services (including suspension or restriction of access to or use of all or part of the services or change of operational hours) or otherwise as it may deem necessary or appropriate to deal with such emergency.

HKSCC may decide to cease the provision of the China Connect Clearing Services permanently with immediate effect or otherwise by publishing an announcement on the HKE<sub>x</sub> website or by such other means as HKSCC considers appropriate, and HKSCC will specify the arrangements and conditions (including the treatment of any outstanding positions in China Connect Securities Trades or any holdings of China Connect Securities) upon which cessation shall take effect, having regard to such considerations and circumstances as HKSCC may consider appropriate.

**4112. Typhoons and rainstorms**

If Typhoon Signal No. 8 or above is hoisted or lowered and/or a Black Rainstorm Warning is issued or cancelled on any Mainland Business Day, the provisions set out in the Operational Procedures with respect to China Connect Clearing Services under such circumstances shall apply.

**4113. Responsibilities of HKSCC**

In making the China Connect Clearing Services available, HKSCC is only providing arrangements and services to facilitate the clearing and settlement of China Connect Securities Trades and related nominee and depository services. Except expressly provided for under these Rules, HKSCC, the Exchange and HKEx and their respective directors, employees and agents shall not be liable for any obligation with respect to any China Connect Securities Trade, and all obligations and liabilities in relation to or arising from any China Connect Securities Trade, the holding of any China Connect Securities or the use of any China Connect Clearing Service by a Participant shall be borne by the Participant concerned. In addition to any indemnities given by a Participant under these Rules, each Participant shall fully indemnify HKSCC, the Exchange and HKEx and their respective directors, employees and agents and keep each of them indemnified against all third party claims, actions and proceedings in relation to or arising from, directly or indirectly, any China Connect Securities Trade of the Participant, the holding of any China Connect Securities or the use of any China Connect Clearing Service by the Participant and all losses, damages, costs and expenses incurred by HKSCC, the Exchange and HKEx and their directors, employees and agents in relation to such claims, actions and proceedings.

HKSCC, the Exchange and HKEx, and their respective directors, employees and agents shall not be responsible or held liable for any loss or damage directly or indirectly suffered by a Participant, its clients or NCPs (if applicable) or any third parties arising from or in connection with the China Connect Clearing Services including, without limitation, the following:

- (1) any suspension, delay, restriction, interruption or cessation of any China Connect Clearing Services, or any inability to access or use any China Connect Clearing Services;
- (2) any special arrangement put in place or any action, step or measure taken or not taken to deal with an emergency;
- (3) the clearing and settlement of any China Connect Securities Trades through the use of the China Connect Clearing Services and any related nominee, depository or other services;
- (4) any delay or failure to provide any China Connect Clearing Services due to any system or connection failure, power outage, software or hardware malfunction or events beyond the control of HKSCC;
- (5) any delay, failure or error of CCASS or any system of the relevant China Connect Clearing House or any of its or HKSCC's designated or agent banks or any other system upon which HKSCC is reliant in providing the China

Connect Clearing Services;

- (6) any delay or failure to execute or error in clearing or settling any China Connect Securities Trades due to reasons beyond the control of HKSCC including but not limited to any action, decision or order taken or made, or not taken or made, by any China Connect Clearing House or a relevant governmental, regulatory or competent authority or a court of competent jurisdiction, including but not limited to any court order or injunction that may be made against the account maintained by HKSCC with the China Connect Clearing House;
- (7) any delay or failure to execute or error in clearing or settling any China Connect Securities Trades by the relevant China Connect Clearing House for any reason;
- (8) any delay or failure by any bank or payment system designated or used by HKSCC or the relevant China Connect Clearing House in effecting settlement or other payment instructions, in providing cross-boundary transfer of Renminbi or other currencies between Mainland China and Hong Kong or in providing any other services upon which HKSCC is reliant in providing China Connect Clearing Services or in operating the relevant Clearing Link, or the insolvency of any such bank;
- (9) the imposition, introduction or change of any condition, restriction or requirement on the use of the China Connect Clearing Services under these Rules; and
- (10) the taking of any action or the exercise of any discretion, or not doing so, by HKSCC pursuant to these Rules or otherwise.

**4114. Termination as China Connect Clearing Participant**

HKSCC may at any time by giving not less than ten (10) Business Days' notice in writing terminate the registration of a Clearing Participant as a China Connect Clearing Participant.

Subject as otherwise provided, a Clearing Participant may by giving not less than one month's notice in writing to HKSCC terminate its registration as a China Connect Clearing Participant. At any time after receipt of notice to terminate registration, HKSCC shall have the right to decline to accept any instruction or give effect to any transaction relating to the clearing and settlement of China Connect Securities Trades involving such Clearing Participant if HKSCC considers it appropriate in the interests of HKSCC or other Participants.

Upon termination of a Clearing Participant as a China Connect Clearing Participant, provided that all liabilities of such Clearing Participant to HKSCC in respect of Market Contracts in China Connect Securities, whether actual or contingent, have been satisfied or provided for in full and provided that all payments by HKSCC to the relevant China Connect Clearing House as cover for HKSCC's corresponding liabilities to the China Connect Clearing House have been repaid by the China Connect Clearing House to HKSCC, HKSCC shall, subject to any deductions which may be allowed under these Rules, repay to the Clearing Participant such

amount as shall represent the balance of any Mainland Settlement Deposit and Mainland Security Deposit which the Clearing Participant has provided to HKSCC within eight months of the termination of the Clearing Participant as a China Connect Clearing Participant, or such other period as HKSCC in its absolute discretion considers appropriate.

**CHAPTER 42****CHINA CONNECT CLEARING HOUSES****4201. Cross-boundary Clearing Links in relation to Exchange Trades**

HKSCC and a China Connect Clearing House may enter into a Clearing Link under which China Connect Clearing Services may be provided by HKSCC to Participants pursuant to Chapter 41 in respect of China Connect Securities Trades that are executed by the SEHK Subsidiary on a China Connect Market. HKSCC and a China Connect Clearing House may also enter into a Clearing Link to enable such China Connect Clearing House to provide clearing, settlement, depository, nominee and other services to its participants in respect of Exchange Trades in SEHK Securities that are executed by a Special Participant on the Exchange.

This Chapter 42 sets out the provisions that apply to a China Connect Clearing House which has entered into a Clearing Link with HKSCC relating to Exchange Trades in SEHK Securities.

**4202. Services to a China Connect Clearing House in relation to Exchange Trades**

HKSCC may provide such services as it may consider appropriate for the purposes of establishing and operating a Clearing Link in relation to Exchange Trades referred to in Rule 4201 to any China Connect Clearing House that is a Clearing Agency Participant in accordance with the provisions of the Rules. Such services may include, without limitation, the following:

- (1) the clearing and settlement of Exchange Trades by HKSCC in its capacity as central counterparty for such China Connect Clearing House in its capacity as Clearing Agency Participant; and
- (2) the provision of nominee, depository and other related services in respect of SEHK Securities by HKSCC to such China Connect Clearing House in its capacity as Clearing Agency Participant.

**4203. Qualification requirements for China Connect Clearing Houses to clear Exchange Trades**

A clearing house applying to be a China Connect Clearing House that is allowed to participate in CCASS in respect of Exchange Trades in SEHK Securities must satisfy the following criteria:

- (1) be a Clearing Agency Participant authorised by HKSCC to clear and settle Exchange Trades in SEHK Securities in the CNS System;
- (2) be an ATS provider authorised by the Commission under section 95 of the Ordinance;
- (3) be a clearing house duly authorised by all relevant regulators in Mainland China to provide securities clearing and settlement services to its participants;

- (4) be of good financial standing and integrity;
- (5) satisfy any regulatory conditions specified by the Commission under the Ordinance or in relation to the authorisation of the China Connect Clearing House as an ATS provider by the Commission;
- (6) have a valid, binding and effective Clearing Links Agreement with HKSCC; and
- (7) meet all other relevant participation criteria as HKSCC may prescribe from time to time.

#### **4204. Application procedure**

Applications made under Rule 4203 must be in writing and in such form as HKSCC may from time to time prescribe. Upon request, an applicant must demonstrate to the satisfaction of HKSCC that it is able to comply with the regulatory conditions that may be imposed on it by the Commission. Approval may be given subject to such terms and conditions as HKSCC may consider appropriate. A clearing house that is approved by HKSCC under this Rule 4204 will (to the extent it is not already so added) be added to the list of China Connect Clearing Houses referred to in Rule 4105(b), and the list will note that such China Connect Clearing House has been approved for the purpose of a Clearing Link in relation to Exchange Trades.

#### **4205. Clearance of Exchange Trades by China Connect Clearing Houses**

A China Connect Clearing House which has been approved by HKSCC under Rule 4204 may participate in CCASS as a Clearing Agency Participant and clear and settle Exchange Trades in SEHK Securities that are executed by a Special Participant, subject to these Rules.

A China Connect Clearing House may clear and settle Exchange Trades in SEHK Securities for a designated Special Participant only. It shall not clear and settle Exchange Trades in non-SEHK Securities or for a participant of the Exchange other than the Special Participant designated by the China Connect Clearing House and with whom it has entered into a Clearing Agreement. The China Connect Clearing House shall ensure that the Clearing Agreement to which it is a party, and all subsequent agreements to amend the Clearing Agreement do not contain any provision which is inconsistent with the Rules. The China Connect Clearing House shall, at the request of HKSCC, supply it with a certified copy of the executed Clearing Agreement.

A China Connect Clearing House shall not be entitled to decline to settle and clear any Exchange Trades in SEHK Securities that are executed by its designated Special Participant.

Clearance of Exchange Trades by a China Connect Clearing House for a designated Special Participant shall be in accordance with the Rules, including Rule 901. Subject to the Rules, Exchange Trades cleared by a China Connect Clearing House for a designated Special Participant are to be cleared and settled in CCASS under the CNS System and novated in accordance with Rule 3301.

**4206. Restrictions applicable to a China Connect Clearing House relating to the clearance of Exchange Trades**

Notwithstanding any other provision in the Rules to the contrary, the following restrictions shall apply to a China Connect Clearing House:

- (1) an Exchange Trade may not be cleared under the Isolated Trades System, whether by election of the counterparties to the Exchange Trade or otherwise;
- (2) no transactions arising out of any Settlement Instructions or (for the avoidance of doubt) any Investor Settlement Instructions, Transfer Instructions or Cross-Border Transfer Instructions by such China Connect Clearing House shall be accepted for settlement and/or clearance by HKSCC, except as mentioned in Rule 4206(3) below or as authorized by HKSCC; and
- (3) the China Connect Clearing House and its participants shall not effect any non-trade transfer or settlement of transactions in Eligible Securities outside of the relevant Trading Link, other than (i) any non-trade transfer or settlement of Eligible Securities as a result of succession, divorce, loss of legal person status, donation to a charitable foundation or approval by any relevant state authority in Mainland China (ii) any matter relating to the creation or enforcement of pledge, (iii) any assistance in judicial enforcement or (iv) any other transfer as may be permitted by the China Securities Regulatory Commission.

**4207. Nominee and depository services provided to China Connect Clearing Houses in respect of SEHK Securities**

HKSCC shall provide nominee and depository and other services in respect of SEHK Securities to any China Connect Clearing House which has been approved by HKSCC under Rule 4204 on the same basis as for other Participants as set out in these Rules, provided that:

- (1) no deposit or withdrawal of Eligible Securities from CCASS shall be permitted;
- (2) no SSA with Statement may be opened by such China Connect Clearing House;
- (3) the China Connect Clearing House shall not be entitled to apply for Eligible Securities by giving Electronic Application Instructions for New Issue Shares to HKSCC;
- (4) HKSCC will not be obliged to provide or arrange to provide copies of corporate communications for corporate communications events to participants of the China Connect Clearing House or any of their clients; and
- (5) where the entitlements or securities being granted or offered by an issuer under any corporate action do not constitute Eligible Securities, HKSCC may, at the cost of the China Connect Clearing House, make such arrangement with or for the China Connect Clearing House regarding the disposal or

realization of such securities as HKSCC may consider appropriate.

**4208. Continuing obligations of China Connect Clearing House**

A China Connect Clearing House which has been approved by HKSCC under Rule 4204 shall at all times:

- (1) comply with the qualification requirements set out in Rule 4203;
- (2) comply with and be bound by these Rules as in force from time to time and all procedures, requirements, regulations, conditions and guidance published by HKSCC pursuant to these Rules, in each case insofar as they relate to its participation in CCASS in respect of SEHK Securities, subject to the terms of the Clearing Links Agreement between itself and HKSCC;
- (3) provide, within such period as HKSCC may specify, such information in its possession as HKSCC may request about the Special Participant with whom it has entered into a Clearing Agreement for the clearing and settlement of Exchange Trades in SEHK Securities, including but not limited to information relating to the Special Participant's financial position, its underlying members or clients, and any other information or documents as HKSCC may from time to time demand; and
- (4) provide such amount of SEHK Securities as shall represent its short CNS stock positions in Exchange Trades in such SEHK Securities to HKSCC as Collateral Securities and ensure that it is authorized to provide such Collateral Securities to HKSCC.

**4209. Insulation against risk spillover**

A China Connect Clearing House which has been approved by HKSCC under Rule 4204 is exempt from contributing to the Guarantee Fund. Amounts standing to the credit of the Guarantee Fund will therefore not be applied by HKSCC towards meeting any obligations arising out of Market Contracts between HKSCC and a Clearing Agency Participant which is a China Connect Clearing House.